SUBSIDISE? YES! -- BUT WHAT? (2004)

Just to remind ourselves : a company sells its products in order **to meet its various expenses such as purchase of raw materials, employee salaries, any dividends due to shareholders, reserves for future investments,** ... etc.. What's left over are the profits, which the company always seeks to maximise.

If, in a competitive free market, production increases, more goods become available and prices tend to go down.

Lower prices benefit the consumer, but not the producer, who sees his profits go down.This is the classic logic of supply and demand, the nice mechanism of which big players like Europe and the United States, **by embracing the use of subsidies**, have consistently prevented from working.

What are the "whys" and the "hows" of such a deviant manoeuvre -- and, above all, what does **Vivant propose should be done?**

A) The "whys" and the "hows".

In earlier days, the internal needs for food in each agricultural country were more or less met by selling to the consumer at prices **that reflected the real cost of production**.

Surpluses, or shortages, were then exported or imported.

In larger countries local produce would often be sold in local markets essentially serving the neighbouring communities. **The classic supply and demand mechanism worked to perfection in such markets.**

But since the mechanisation of agriculture production costs have certainly gone down, while yields have considerably gone up -- even wildly so. **And this abundance of production presses prices down at the global level.**

A country with large and easily accessible areas of agricultural production can now flood the market with its produce, selling it at one price in the home market and at another for export.

High-cost countries therefore find themselves up against competition and can no longer sell their produce on the world market.

It is all a question of balance between supply and demand. At present, there's an imbalance!

The classic approaches are either **to subsidise production**, as has been done in Europe since the beginning of the Common Market, or **to reduce supply**, as the United States did before they too turned to subsidies.

So it is that, in order to maintain its number of farmers, Europe set off on the road of subsidisation. The greater part of the European budget is swallowed up by the Common Agricultural Policy (CAP), which Europe cannot manage to reform.

The more a farmer produces, the more subsidies he gets. The more subsidies he gets, the more he invests in the means to produce still more. **This policy has thus strengthened the large farmers and weakened the small ones, who have been forced out of existence.** Who, these days, would dare to set up as a young farmer?

As the years have passed, other policies have come along: production quotas, control of crops, fallow fields, &c. -- not to mention the administration required to manage all this economically artificial activity, or to try to prevent fraud.

Given the market is open, Europe is "obliged" to sell a ton of corn (for example) at **EUR 101.31** (equivalent to the world price) and to subsidise farmers to the tune of **EUR 63** per ton, so as to meet the real cost of production of **EUR 160.** *(September 2003)*

But where's the farmer's own profit gone?

Forced as he is to produce always more in order to get his subsidies, **how can he bother himself with quality?**
And why does he go on producing, while failing to make a living and remaining dependent on subsidies? **All in the name of false competition** which obliges the United States to subsidise their farmers -- by an amount that quadrupled from 1996 to 2000 ?

The reasoning does indeed depend on the balancing principle of supply (production) and demand (purchases), **but in this case the wanted balance is upset by two factors:**

- on one hand, the purchaser is seeing his purchasing power melt away (no work);

- on the other, there is an artificially high supply (with low selling prices) accompanied by relatively high production costs.

At first sight subsidies would seem to solve the problem: prices remain artificially low (which is good for consumers lacking purchasing power) and producers are compensated for production costs which are too high in relation to selling prices.

Unfortunately, subsidies bring with them a number of awkward side-effects: they interfere with the competitivity of those countries that do not have subsidies, and hinder their development; also they trigger a process tending towards ever higher subsidies, and this misused money contributes to impoverishing our "rich" countries; &c.
Once one is caught up the subsidy system, it's not easy to get out of it. Any sudden global abolition of subsidies would bring about **price-hikes** (which people don't have the means to cope with) and **a diminution in the number of producers** in our rich countries (social costs).

Contrary to what one might think, Europeans do not have **the purchasing power** to buy clothes at prices which would include European labour costs. So, because of migration of manufacturing, the number of jobs and the domestic market are diminished.

Meanwhile, the smaller countries, poor or otherwise, are obliged to open up to the world of the Big Countries and follow their ultra-liberal dictates: **reduce their internal markets and export** in order to pay their debts while not being able to feed their own populations.
And Lucides: La Via Campanien -- a movement of seventy-odd different peasants' movements, including, in France, the Peasants' Confederation and, in West Africa, the network of peasants' and farmers' organisations (FOPPA) -- pointed out on 17 July 2001:

"The priority of peasants and their families in less advanced countries is first to produce for their families, then for the local market -- long before exporting."

This is unfortunately not the position usually taken by the governments of the less advanced countries during international negotiations. (*Le Monde Diplomatique*, September 2003, p.23: The three aberrations of agricultural policies. Jacques Berthelot.)

In short, **the local market must again come into its own**. And it is not the Big Countries which will bring this about, for they continue to insist on their trade patterns which with one **blow destroy** the local markets (agricultural and other) and hence the purchasing power of the individual.

At present, the World Trade Organisation (WTO), in agreement with the International Monetary Fund (IMF), **are striving to "liberalise" public services, to trade what is cultural against** what is profitable. It is true that in the past much international development assistance investment has served only to enrich certain leaders (in Africa and the former Soviet Union); and that corruption is still endemic in numerous countries. It is against that that the IMF wishes to fight.
But that is no reason to undo, for the sake of immediate effect, the public services these countries need.

B) What does Vivant propose?

The only valid alternative way to go is to seek economic efficiency (balance between supply and demand in a free competitive market which is not skewed by subsidies), but in a world **where the consumer can acquire purchasing power and maintain it**.

To legalise a minimum purchasing power is another way -- that supports, subsidises, both employment and the market, for it is a defence for the vulnerable against the predations of the rich.

For example, given the dramatic situation in Africa, the WTO and the IMF should maintain domestic (or local) markets and the riches of these countries **by supporting the institution of an unconditional basic income as a subsidy to their *citizens* and to employment.**

Eduardo Suplicy (Senator for the Brazilian State of Sao Paulo) has said:

"Basic Income is an efficient arm against that lack of economic freedom which pushes people to accept slave-like working conditions, or to go and seek a living in inimical places. It is an efficient tool in the fight against organised crime (trafficking in drugs and people) and which breaks the vicious circle of poverty and illiteracy."

Instead of which, we see Europe and North America embracing subsidies in the name of "regular competition" -- we also see peasants in the South forced to work in order to reimburse debts, the amounts of which will go indirectly to subsidising the producers in the North. All this in a framework **where the role of the individual is reduced to that of a spectator -- both in the North and the South.**

Would it not be more intelligent **to underwrite purchasing power** and thus save, or protect the individual, the market and economic activity within the framework of sustainable human development?

We include in annex to **this text extracts from the complete Vivant Programme of 2003** concerning agricultural policy and North-South relations. These extracts amply show the many possibilities which would be opened up if our system were revolutionised **by a new approach to subsidies and development assistance.**

Deviant economic subsidies are a snare and **a delusion** and turn humanitarian aid into a cause of **disguised slavery.**

If the WTO could work **more democratically** (the statutes provide for one country, one vote), and the IMF could depend less on the donor countries, it would at last be possible for people to have an economic activity, to be a consumer, to develop, to live in a way where economic efficiency and social equity combined.

***To subsidise the individual* is merely to respond to the wish expressed in Article 25 of the Universal Declaration of Human Rights:**

> *"Each person shall be entitled to a standard of living sufficient to ensure his health, his well-being and that of his family, particularly their needs for food, clothing, shelter, medical care and social services; each person shall be entitled to security in case of unemployment, sickness, invalidity, widowhood, old age or other circumstances against his will which deprive him of his livelihood."*

Subsidising the individual within an efficient economic framework is in reality to maintain liberty, equality and fraternal solidarity.

Unconditionally subsidising and aiding the individual should be the main line of socio-economic action for a more humane globalisation.

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EXTRACTS FROM VIVANT'S 2003 PROGRAMME

EXTRACT 1

Companies

The perverse effectof the present system of replacement salaries is that the difference between it and the minimum salary is so tiny that many people prefer not to work (openly). At present, companies have difficulty in recruiting good unqualified workers.

Under the Vivant system everyone, working or not, receives a Basic Income of € 500, and up to € 1,250 neither the worker nor the employer has to pay tax on labour. The financial difference between working and not working thus becomes significant.

Also, the break-even point for companies is much lower: the fixed costs of social charges are replaced with variable costs – the social VAT – **which are paid at the moment of sale.**

All businesses pay **15% company tax.** Small businesses are thus better off and certain large businesses worse off, particularly those that enjoy the status of "coordination centre" or another favourable regime relating to profits tax. **<u>All company subsidies are abolished.</u>**

Social liabilities are lower, particularly in respect of redundancy payments, which are payable only on the difference between global net salary and Basic Income, i.e. the cost of labour in the Vivant system. At present salary costs are considerably higher. Furthermore, **much less risk** is involved in hiring a large number of employees. **(p. 38)**

EXTRACT 2

Agriculture

farmers: the European subsidies (€ 1,000 million) are exactly sufficient to provide all our farmers and their workers with a Basic Income. An advantage is that the individual subsidy no longer finances productivity but rather the quality of our farm produce; **(p.20)**

EXTRACT 3

Development Cooperation

Vivant doubts whether development cooperation is effective as it is being done today. Vivant is against “regulated” aid because it can be the source of corruption and disloyal competition. When Western aid is given because the goods or services it provides are not available locally, it should be consequent upon a European public tender, and should be open to European and non-European companies that can give sufficient financial guarantees for seeing through the project.

According to Vivant, more efficient forms of development cooperation would consist of:

- the enlargement of commercial opportunities, so that the beneficiary country creates its own instrument of prosperity;
- assistance providing adequate management for the execution of development projects, with partners (local ones for example) that enjoy the confidence of the local population;
- support to initiatives that provide small-scale capital in the form of loans to the local population (micro-credit).

In addition, it is necessary to:

- ensure that foreign investments do not favour development inequalities;
- accept as candidates for development aid only countries whose military power has been reduced to a minimum, so that democracy can be established securely without jeopardising sovereignity;
- organise experiments with a Basic Income equivalent (for example, a Basic Income paid out in food) in small isolated communities.

The regular (monthly) distribution of a Basic Income in the third world necessitates effective financial control and social guidance in order to avoid embezzlement of funds.**(p.72)**

EXTRACT 4

Basic Income in Third World Countries

Vivant also supports the movement in favour of releasing third world countries from their debts. Most of these debts have been contracted by authoritarian regimes. Banks granted credits without properly examining the risks. In general, the population of the beneficiary countries was not able to participate in the decision and the people were not the ones to benefit from the credits awarded by the banks. It is therefore not fair that these populations should suffer a fall in living standards in order to reimburse the debts.

Vivant also believes that the introduction of a Basic Income in third world countries may be the best way to spend the budget devoted to development cooperation. It is possible to give a basic income of € 40 to each Nicaraguan with only 1% of our GNP. In Nicaragua, with a population of about 2.5

million, these € 40 are equivalent to € 250 in Belgium, since basic products are cheaper. In this way, local markets are created, as buying power is increased. A Basic Income grants greater autonomy and space for own initiative to those who receive it.

Another possibility is to tax heavily the industrial products imported into these countries, as they are often bought by wealthy people. This would provide partial funding for the Basic Income for the whole population. **(p.72)**

EXTRACT 5

Importance of a Basic Income for the Third World

In June 2001, in São Paulo (pop. 17 million), Brazil, Martha Suplicy, mayor of the city since January 2001, introduced a Basic Income for low wage earners and those with no income. This is accompanied by social aid in the form of management education and protection against theft.

Her ex-husband, Eduardo Matarazzo Suplicy, federal senator of the state of Sao Paulo for the workers' party, has declared: "Basic income is an efficient arm against the economic unfreedom that pushes people into accepting semi-slavery working conditions or into seeking work in unfavourable regions. It is an efficient means in the battle against organised crime (illegal drugs trade, human trafficking) and breaks the vicious circle of poverty and illiteracy." **(p.73)**

A law for a basic income was voted in 2004.