

Accelerators of Progress for Europe



A report presented within the framework of the "Renaissance Europe" programme

by Raymond Van Ermen

Summary

With the European Constitution and its significant successive enlargements, Europe is yet again in a process of metamorphosis. However, the challenges and risks of the next few months and years are such that Europe has engaged in a race against the clock to persuade its citizens, stabilize the whole project, open up new perspectives and mobilize all its dynamic forces. This is why Europe needs "accelerators of progress".

The metamorphosis of Europe is like a half-full cup. Since the Hague Congress in 1948, Europe has been the product of thousands of "agents of change" playing an active part in the political, economic, environmental, cultural and societal fields and turning 21st century Europe into a unique experience in history. This so-called "transmodern" experience is regarded by some as inaugurating a new phase in the history of mankind. The European Constitution has made human rights and sustainable development into the new cornerstone of the Union. This cornerstone used to be the market, but no more – a fundamental shift of perspective, which acts as major leverage for further progress for the whole of mankind.

But the metamorphosis of Europe is also like a half-empty cup. On the one hand, there have been so much wasted energy and money, so much time lost, so many missed opportunities. We would need a political Europe with ever-greater efficiency, a European Commission and businesses with ever-greater innovatory spirit and a civil society with ever-greater mobilization. On the other hand, if the cup is half empty, it is also because the forces against change are the best organized. The "transmodern" agents present in institutions, businesses and civil society too often lack the ability to exercise collective leadership in a networking Union, to create synergies with a view to a swift implementation of the "transmodern" objectives of the Union, successfully enshrined in its Treaties though their application has been blocked or delayed by their opponents. These very forces will paralyze the process for a "new" European competitiveness and might make the whole Europe project "implode".

The report focuses on "accelerators of progress" in three fields of action on the initiative of three types of players. In previous years we have managed to introduce a number of "accelerators of progress" in the Community machinery, namely the Charter of Fundamental Rights and the sustainable development concept. This report, addressed to "agents of change" and presented within the framework of the "Renaissance Europe" programme, intends to show how the "centre of gravity" of the European agenda has shifted and to identify new "accelerators of progress" that can create trust in the Europe project in this referendum period. The first field of action is shared identity and citizenship. It concerns all that is undertaken in favour of a "European" identity and its next stages through extending the scope of European citizenship. As the Union cannot develop its identity on the basis of a language, a culture, or a religion, the development of European citizenship as an identity factor may be the solution. European identity would be attached to "six new citizenships".

A new field of exercise of citizenship should also accompany the negotiation process for the EU enlargement.

The second field of action is cohesion and competitiveness. The Commission proposes a two-pillared strategy, one on "growth and employment" and the other on "sustainable development". This vision is outdated, as it does not take into consideration the fact that "sustainable development" already leads to new forms of "competitiveness". Competitiveness will imply (i)

social cohesion, (ii) a new approach to both the knowledge-based society and cooperation between public authorities, the market and civil society, (iii) a sustainable development and industrial policy project on the scale of the issues at stake in the world economy (with its new products, technologies, services), (iv) new business models, particularly to meet the needs of billions of poor people, and (v) new forms of synergy between corporate social responsibility (CSR), competitiveness and the diversity of territories. In any case, as regards eco-innovation, the proposals drawn up by the Barroso Commission for an "EU Growth and Employment Strategy" mark a significant step forward which is the fruit of a string of efforts for the past 13 years.

However, this growth and employment strategy will be like a Ferrari with a 2 horsepower engine if the strategy does not define innovatory mechanisms for governance and synergy. The problem of the Lisbon process is said to be a governance issue. This remains true if we make do with the formula: "A plan at the European level, a plan at every Member State level, while the involvement of the social partners" in order to "get mobilized for change".

The third field of action is the next stage in the metamorphosis of the Union, which lies in making a success of its enlargement and its partnerships with and within the Mediterranean Basin. The Euro-Mediterranean region, which is set to become a "free and fair trade area" by 2010 must become a pilot region of the world in terms of implementation of fundamental rights and the human security concept.

In these three fields of action, the EU institutions – such as the Commission and the European Council – as well as Member States and candidate countries, in particular Turkey, civil society and company CEOs need to set up new "accelerators of progress".

Civil society must no longer be the "hidden partner" but the "indispensable ally" in this new phase. The civil society agenda is like a four-leaf clover:

- i. Civil society will have to build "social capital" in Europe, particularly through exchange programmes for all categories of population in Greater Europe, the development of socially-oriented firms and initiatives to enhance the cultural heritage.
- ii. Civil society must give a major place to "the battle for the hearts and minds of Muslims" in Europe and it must work with them and the other philosophical and religious movements to reassert the European "universal" vision, which translates into human rights. Civil society would start with a dialogue with European citizens of Muslim denomination about fundamental rights and their place in the Charter for a Euro-Mediterranean Alliance. We need to cooperate with them to turn Europe into a beacon for the Near-East.
- iii. Civil society must also manage to establish ever closer links between the local, European and universal levels, particularly by initiating a transatlantic dialogue of religions and philosophies and by playing a very active part in the issue on "sustainable development at local level".
- iv. Finally, civil society must work with the European citizen-worker-consumer-investor and its counterparts in the world so that, on the one hand, European public and private social and environmental standards can be used as a basis for a sustainable global industrial policy and, on the other hand, citizens can put into practice the "monetary vote", which is the second most important voting procedure in a globalised world.

European Institutions.

The Commission, as such, has a role as an agent of change that has evolved over time. But its influence has diminished (we now talk of a small OECD) and its running is often associated with the word "nightmare". Conflicts between Directorates General act as a powerful brake on swift progress. The way in which the Commission manages its relationships with civil society and the funds granted to projects must change. Today the Commission must rethink its strategies and practices in order to create a leverage effect and have the greatest possible multiplier impact, for example to meet the millennium objectives or become the "world reference point" as regards respect for human rights. As an agent of change, the Commission should become the driving force behind a *new "spring forward"* on three topics in the years to come: (i) European participatory democracy, (ii) the networking Europe, (iii) the biosphere perspective.

It was proposed in a previous report to set up a *multi-stakeholder task force* attached to the presidency of the Commission and focusing on "partnerships" with civil society and the market. It is this task force, an "accelerator of progress", which should issue a "Second White Paper on Integrated Governance" dealing with relations within the triangle "EU Institutions – Businesses – Civil Society".

The European Council. It will be up to the European Council to create mechanisms to unify "strategies on growth and employment, social agenda, sustainable development, millennium objectives, etc.", which the Commission is wrong to deal with separately. Mechanisms should also be created to produce leadership, dynamism and empowerment, whereas usual mechanisms lead to paralysis. Finally, social cohesion – which acts as "social glue" for competitiveness – should be ensured. Two important occasions and two "accelerators of progress" would be:

- The European Spring Council: a new type of *European Convention* on a *European Contract for a Global Well-Being Society*, with decentralized phases at Member State level. Today's agendas overlap one another (competitiveness, research, knowledge-based society, social agenda, sustainable development, millennium objectives, etc.), requiring a new work method adapted to this situation.
- At the Euro-Mediterranean Partnership Summit: a *Euro-Mediterranean Alliance for Human Security and Human Rights*, launched at the Barcelona Summit. The "Euro-Mediterranean Alliance for Human Security and Human Rights" would have a Euro-Mediterranean Charter and rely on new institutions (a Court of Justice, a Senate) and new tripartite mechanisms to meet the millennium objectives. Such an institutional process would be our answer to the US initiative for a "Greater Middle East".

EU Member States and Candidate Countries. Schemes for enhanced, tripartite cooperation (public authorities, market, civil society) in the fields that come under the authority of the Member States and constitute an essential lever, for example fiscal powers. The hypothesis of an enhanced cooperation for "sustainable investments" will thus be explored with public authorities and banks from several EU countries.

Turkey. It is proposed that in parallel to negotiations and as soon as these are started in October 2005, a contact committee should convene representatives from the Commission, the Turkish government and the Turkish and "European" civil society. The "peoples" of Turkey and the Union must both be winners when accession referenda are held after the closing of negotiations in Austria and in France.

CEOs in the insurance, banking and mass distribution sectors.

The CEOs of the companies that signed many declarations of intent for eco-efficiency or climate change – and managed to some extent to start on the "technological" change needed in the ranges of products and services – have blocked the political and macro-economic changes necessary for creating a scale effect, a critical mass and transform niche markets into mainstream markets. Since the European businesses with a "sustainable development agenda" have not been willing to exercise collective leadership at a European level up to now – or have not managed to do so – and that representation mechanisms for the social partners act as a brake rather than leverage, we shall have to change methods to support the agents of change at corporate level. The accelerator of progress here will consist in putting CEOs from the insurance, banking and mass distribution sectors in the spotlight. Together with citizens-investors-consumers, they can propel markets into a "new economy".

As a conclusion, we can say that the networking Europe being built is not only a networking Europe of States and Regional and Local Authorities, but also a networking Europe of Peoples and Civil Society and a Europe of the Market. The metamorphosis of Europe will not be the product of political decisions alone. It will result from billions of other interactions among people and within the market. Efficiency cannot be achieved without a three-lever strategy: implementing the *acquis* of the European Constitution without delay, getting citizens-investors-consumers mobilized in order to propel markets forward and establishing action steps at local level.

The full report is available on the Net on: www.epe.be

APPLICATION OF THE METHOD OF THE OLD KING BY VIVANT (2004)

A. VIVANT'S PHILOSOPHY

Its first principle is this: **In the State, or in society, human beings and their ecological environment should be at the centre of any initiative.** The organisation of society is there to serve the citizen – not the other way round. The absolute priority for society is to allow men and women to develop and reach their full potential, and society should do everything to achieve it. It goes without saying, however, that **each person retains responsibility for her/his life and happiness.**

Human beings are not objects who limit themselves to a single function as consumer or worker. Men and women are human beings deserving respect in all matters and **are sovereign inasmuch as they wish to be and have the capacity to be.** They are social actors. Within the limits of their human condition, they are capable of creativity and thus can participate in preparing optimal conditions of life and of society.

The economic system and financial organisations do not represent a goal in themselves. Nor do they represent “higher values”. They are there to serve the people. They are not above the law or the State. The State – that is to say all of us – is organised collectively and democratically so as to render our society viable, durable and agreeable.

The higher instances, of policy, of governance, the economy, justice, public servants, ministers, etc., are the means by which those who live in a country can live together with others and feel they belong to a community.

Vivant actively promotes social justice and fights against all physical, moral or environmental violation.

Vivant would see all the inhabitants of a country feeling secure, both in their relationships with other people and when problems arise. Vivant sees the mission of society as the elimination of fear, despair, poverty, misery and exclusion through **prevention, information and education.** That is why, for instance, Vivant publicly stated, on the 50th Anniversary of the Declaration of Human Rights, that it subscribed to it.

B. VIVANT'S CONVICTION THAT A NEW SOCIAL SYSTEM IS NEEDED

1. A New System

Up to ten years ago our economy was essentially a closed one. Trade was with countries having social security systems similar to our own. There were no obvious opportunities for businesses to re-locate abroad as there are today.

When the Berlin wall came down the world changed. There are today 5 billion consumers in the capitalist world instead of just 1 billion a decade ago.

The number of workers has increased proportionately. But these extra workers earn only a tenth of what our workers earn.

Social security hardly exists in the majority of the countries that are newly participating in the world market.

That is why systems of reduced working hours do not provide a good solution.

Let us look at what would happen if businesses were legally obliged to reduce working hours.

a) If reduced working hours also means reduced salary, there will be less money for people to spend. Not only would they live less well, but lower consumption would lead to lower business sales figures, lower production and thus even more unemployment.

b) If one works less for the same salary, business production costs go up; exports would suffer and also lead to more unemployment.

Inflation, fuelled by higher prices, would take off again. One could always import goods produced at lower cost elsewhere so as to avoid inflation, but then unemployment would go up even more.

In the context of free trade with low-salary countries, reduction in working hours leads to the country's disintegration.

It is high time our governments understood that the social security of the Welfare State is under threat and that the measures put forward up to now show that the politicians no longer see things clearly, even if their intentions are of the best.

A country that obliges its businesses to pay about 40% of their added value for financing social security cannot compete directly with low-salary countries having no social security.

If we do not wish our social security to go under, there is only one solution: *make imported goods share the financing of our social security.*

That can best be done, for goods produced in Europe, by replacing salary charges with higher VAT. As for goods produced outside the European Union, with child labour, for example, they would be more highly taxed than at present.

This measure is not protectionist in the strict sense of the term, because VAT would be the same for goods made at home as for those made in low-salary countries. In fact, this measure provides only partial relief of our businesses' handicap.

The Welfare State therefore needs to be re-thought if it is to survive. The social security financing base **is shrinking** every year. Under the present system, it is based entirely on the salaries of those in work, a small proportion of the population (*only 2,000,000 workers and traders!*).

Reducing working hours reduces this base even further; it is therefore **a mistake**.

It is a mistake **also** because there is plenty of work to be done (health care, maintenance, education...). But this type of work has become *exceedingly* expensive because, precisely, social security is financed by a tax on labour.

Our society is rapidly becoming a service society; and that has economic and philosophical implications.

a) Economically, it is the social security financing system that is called into question. Services cannot be taxed as much as industrial products without producing a parallel “black” system.

b) Philosophically, there has to be a general realisation that in our post-industrial society there is enough material benefit to go round if only society is organised in **an intelligent manner**. Henceforth, it is human well-being that should be emphasised (*of the mind...*); that is, an economic and social context needs to be created which enables everyone, the whole population, to “feel good”. In practice that means a degree of job mobility which allows everyone to find the right, pleasing, occupation, rather than *to go through life chained* to a job simply because it is a source of income and security. From now on, *social security and work must be disconnected*, be it in respect of income when one loses one’s job, or pension rights or medical care.

2. What will happen if we do not change our social system?

We are moving towards a situation where our hard-won social security is **slowly but surely disintegrating**. Politicians of the traditional parties do not wish to admit it, but the base of social security financing, i.e. the number of people who contribute towards it, **is shrinking**.

Fewer and fewer people work, so there are fewer and fewer people who contribute to social security financing through the collection of employees’ contributions and employers’ contributions linked to employment.

At the same time, the load laid on the social security system is increasing because of early pensions and longer life.

If nothing is done, the social security system is heading for bankruptcy.

We already see early signs of it: more and more people are excluded from unemployment benefit and social welfare assistance.

Vivant does not accept that there should be less social security.

In all events, **a new way of financing it must be found**.

At present, the State does everything. Maybe politicians think the citizen is incompetent and of bad faith. There are a thousand regulations and a thousand means of obtaining assistance – and as many controllers – for every decision we have to take.

We want a State based on the rule of law, **but a State based on the rule of comprehensible law**.

The myriad of laws and regulations has become so complex that even the specialists argue and go to court to find out who was right; and we, ordinary folk, do not always understand the rightness. **Think of the suspension of Mr. Conerotte by the Appeals Court, which is the epitome of justice embroiled in procedural procedures (or procedural difficulties).**

Relating to the law of labour and social security, the proliferation of regulations is by no means less. There are about forty systems for promoting employment, which change all the time – as if a tiler, a butcher or the head of a small business can find time to study it all...

It is imperative to **simplify the legislation relating to employment and unemployment**.

3. Will the Vivant model result in something different from what we know today?

No and yes.

No, in as far as, for the majority of people, the new levels of income would not be very different from what they are today.

The big difference is that entitlement to social security will not be conditional on having worked. And the amount one gets will not be influenced by complex calculations or interventions mysterious or political.

Above all, nobody will be left out and *the citizenship income removes the link between work and social security*.

Yes, for it makes work more free, more flexible and better remunerated.

Those who wish to change job can give in their notice before looking for another job, *without suffering a penalty relating to unemployment benefit*.

Naturally, reporting to the labour exchange becomes pointless and it is no social shame to have no work.

People will more easily be able to change job, until they find the work and the boss of their choice. If after several years they want a new professional experience, no problem!

Since there will be fewer people left out, even the well-off will benefit from the new situation, for there will be less criminality and less grinding poverty.

Our society is rich enough to be able to afford to pay a basic income to all citizens. What are we waiting for?

4. Why start a new political movement?

The world is in transition. Since the Berlin Wall fell, the global economic system has grown with the addition of the former communist world (China, India, eastern Europe). The number of inhabitants, and hence the number of economic actors, has gone from 1 billion to 6 billion in just a few years.

No international or national authority seriously asked the question whether a programme of “adaptation” at world level was required. There have just been some interventions, localised (East Germany) and scattered.

No-one has seriously asked what will be the consequences for Europe. Businessmen have seen only the possibility of doing new business in these countries and they have rushed to set up joint ventures and sell our knowhow, often with subsidies paid by the European taxpayer and with the help of our organisations supporting foreign trade.

The results: massive unemployment, accompanied by all its psychological consequences for those concerned, and erosion of the financing of our social security. The young feel the effects immediately, and older people will when there is no more money to pay their pensions.

Globalisation puts Belgium and Europe in direct competition with countries where not only salaries are low, but where there is little or no protection or, therefore, social costs.

Low salary costs in China and India (which represent unlimited manpower reserves – 2 billion inhabitants, 6 times more than in Europe) incite firms to relocate **everything possible**. Even computing services and administrative work join the flight.

In our country, where the cost of labour is artificially high because of the taxation of labour (and social charges), a downward spiral is produced. Increased unemployment is financed through new tax increases which make our labour even less competitive.

There are two ways out of this vicious circle:

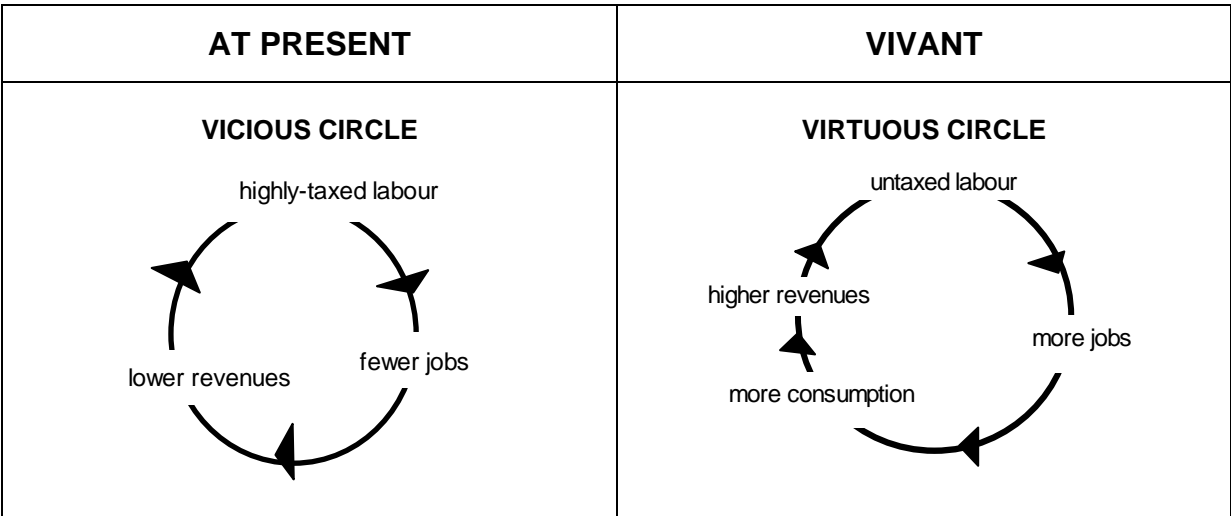
1) Decrease salaries by replacing experienced employees with ill-paid young ones with temporary social status, decrease the minimum wage and set up social policing with sanctions against unmotivated unemployed. This is what your government is doing. **It’s against this that Vivant objects.**

2) Make imported products (from low-wage countries) pay for a part of our social security. In practice, replace the taxation of labour with taxation of consumption (VAT / STC). That is to say, bring the financial base of our social security back to normal. This is what Vivant wants

AN ECONOMIC LOGIC



You don’t have to be a PhD to understand!



Program of VIVANT-EUROPE

The penalisation of European workers with regard to workers outside Europe must be stopped.

Tax on work kills employment, empties Europe of its skills and jeopardises the funding of our social security.

European social security must be funded by the sale of products in Europe, through tax on consumption, or “social VAT”, instead of making employment unaffordable.

Saving employment and social security means guaranteeing durable human development in an environmentally friendly and social Europe.

**VIVANT-EUROPE IS A MOVEMENT
FOR THE CONSTRUCTION OF A SOCIAL EUROPE
AND REGULATED GLOBALISATION**

FINANCING SOCIAL BENEFITS THROUGH CONSUMPTION (2004)

PROPOSAL MADE BY A FRENCH SENATE COMMISSION (July 2004)

FRENCH SENATE (N° 374)

Ordinary Session 2003-2004

Annex to the Minutes of the Meeting of 23 June 2004

INFORMATION REPORT by the Working Group on the Migration of Labour-Intensive Industries on behalf of the Commission on Economic Affairs and the Plan.

For the full French text go to <http://www.senat.fr/rap/r03-374/r03-3741.pdf>

ADAPTING FRANCE AND THE EUROPEAN UNION TO THE CHALLENGE OF INDUSTRIAL MIGRATION (Part Four, page 196)

Having set out what we consider to be the essential principles, your Commission concluded that our recommendations should address three main preoccupations : **to place our businesses in a better position in the new international labour market structure ; to support areas affected by industrial migration and changes more generally ; and to promote an industrial policy which, to be sustainably effective, must be included in the field of competence of the European Union.**

On the economic level several courses of action should be followed **in order to avoid the migration abroad – unjustifiable in economic logic - of productive activities providing value-added.** With this aim in view it is necessary to carry out concurrently : **the abolition of constraints, particularly fiscal ones, that hinder economic development and motivate migration of activities ;** the strengthening of France's comparative advantages to make the country more attractive for investment and improve its industrial competitiveness ; **and organising and supporting, within a logic of innovation, the chains of production, none of which should necessarily be entirely done away with.**

If our compatriots are to accept changes in the economy they must have the means to adapt to them. **The notion of involuntary “sacrifice” of those most exposed to the effects of modernisation cannot be admitted.** First, the rôle of local authorities in the matter of economic development must be **consolidated so as to bring the means of action closer to the areas and communities concerned.** Then the “employability” of the work force must be improved through more determined initial and continuous training aiming at real usefulness. Finally, it appears vital to address the structure of jobs so as not to overlook those close **to others which** have the advantages of not being exportable, **of creating wealth, of being potentially numerous and of enabling increasing needs to be satisfied.**

In addition, this double framework of action must be complemented **by support for a new industrial will at the European level.** A balanced development of the European Union (EU) should be guaranteed which will help an accelerated harmonisation of public policies in all fields affecting the distribution of the means of production within the boundaries of the EU. And it is also necessary to enhance the industrial strength of the Union in the world by making this ambition a political priority backed by the means and the tools that will ensure its success.

I. SUPPORTING PRODUCTIVE ACTIVITIES

Supporting productive activity is certainly of the highest priority in increasing national economic potential and enhancing employment opportunities. It was not part of the mandate of the Working Group to describe all the aspects of this truism, but it did seem necessary to indicate **the three directions in which our economic policy should move in order to act against unjustified migration of economic activity**. The first is **to put an end to those mechanisms, particularly fiscal ones, which objectively encourage such migration**. The second aims to **strengthen our national comparative advantages**, in certain sectors and overall, so as to encourage keeping activities within the country, to make foreign investment in the country more attractive and to take advantage of our national know-how. The last, and not the least, is to organise **and support the chains of production, within a logic of innovation**, while deliberately giving priority to those activities and sectors which provide the highest value-added.

A. ABOLISH THE INCENTIVES FOR MIGRATION OF ACTIVITY

Of the many factors which seem to be hindering economic expansion and mentioned by those the Working Group talked with, (...) the latter found it most worthwhile to concentrate attention on three types of proposal directly related to the issue and, despite the probable difficulties of implementing them, seemingly most immediately applicable.

These proposals relate to : **taxation of the factors of production ; supporting national entrepreneurship; and valorisation of products that conform to social and environmental norms.**

1. Stop taxing the means of production

Every industrialist your Working Group met with thought that the most important of the reasons for the migration of activities – or, more precisely, **of the obstacles to localising investments on French territory – was the cost of labour** (...).

a) Replace social charges with a Competitiveness VAT

Although French salaries are only around the average of those practised in OECD member countries, the cost of labour is higher in France than in many other industrialised countries because **of the high social charges on these salaries**. Over the past ten years various measures exonerating employers from having to make contributions in respect of the lowest paid have been introduced ; and all economists agree that the effects on the employment of unskilled workers have been excellent. Your Commission is of the opinion that it is time to go further and **to generalise the reduction in labour costs – not by penalising those who work but by radically transforming the way family and sickness benefits are financed**.

Already in 1993 our colleague Jean Arthuis proposed that these benefits should be financed by a consumption tax, which could be called a **Competitiveness VAT**. And these ideas have been taken up and developed since then by some very varied personalities.¹ The principle is simple; the advantages numerous.

¹ See, for example : Letter from the Committee on Poverty and Policy n° 21 of March 2004 (“To reduce the migration of jobs and to create new ones”) ; Editorial by Jean-Luc Cazette, Chairman of the CFE-CGC, in the Letter of the Confederation n°1107 of 16 April 2004 (“Towards social contributions based on consumption”) ; the article by Henri Guiano, former Commissioner-General at the Plan, in *Echos* of 27 April 2004 (“Social VAT : the forbidden debate”) ; or the opinion of Christian Saint-Etienne, university professor and President of the Institute for French Strategy (*Institut France Stratégie*) in *Echos* of 1st June 2004 (“Health reform and job migration : a revolutionary linkage”).

(1) A simple principle

No question of principle is raised by collecting money from economic activity to pay for social expenditure that is linked to it (unemployment, retirement, working accidents, professional training) ; but this is not the case for sickness insurance, **family allowances or housing allowances**. There is no reason other than historical accident why these social benefits, which are based on the principle of national solidarity, **should be linked to employment. Yet these costs directly penalise national economic production by adding to the cost of goods produced in this country** as compared with the cost of those produced in countries where labour is cheaper – very often because of lower levels of **social protection**.

This change in the competitiveness of our domestic products affects them both in the home market, where they are confronted with obviously attractive imports, and in export markets.

These social costs are far from negligible. Under the general social security system they amount to a quarter of gross salary. (...)

Your Commission proposes a reform which would replace these levies with a tax raised on consumption – or a tax on value-added (VAT). The switch should not change the revenue position and the level of this tax should be calculated so that it would generate revenue at least equal to that obtained by means of present contributions. But in view of the ongoing debate about the financial sustainability of the sickness insurance system one could take the opportunity **to liquidate the accumulated deficit² and establish a balance between receipts and expenditure so as to avoid the need to further increase the tax.** Furthermore, your Commission would point out that it would be useful at **the same time to re-examine the whole structure of the present VAT rates³ applied to goods and services**, which results from successive historical compromises and reflects little economic logic.

While the principle of this reform is simple, your Commission is aware **that its implementation will be very complicated and must of necessity be preceded by a careful analysis of the conditions for its success.** However, **the advantages** that can be expected from the switch are such that **it would be prejudicial to throw it out just because of the undeniable complexity of the implementation of the switch.**

(2) Numerous advantages

What are the benefits to society of such a mechanism?

First, to restore a certain equity to price structures. The present system penalises all goods and services for which the labour content is high, and particularly the output of labour-

² Given the present state of the sickness insurance branch, it is difficult to avoid this objective. However, in pursuing it, it is clearly needful to fix the rate of the Competitiveness VAT at a level higher than its “natural” level of balance. And this will proportionally reduce the advantage that may be drawn from the measure concerning competitive pricing of French products.

³ In accordance with the European Directive concerning VAT, three rates are at present applicable in France : the normal rate of 19.6%, the reduced rate of 5.5% and the super-reduced rate of 2.1%.

intensive industry, which has been the prime concern of your Working Group. This leads to replacing labour by capital goods, which, while it yields appreciable gains in productivity, **brings down employment, particularly of unskilled workers.**

Second, **to improve the competitiveness of goods produced in France and which face competition in the domestic market from imported goods.** This is obtained through a double positive mechanism. On the one hand imported goods would also be subject to the Competitiveness VAT and their sales price would go up accordingly : there would therefore result a direct competitive advantage for domestic goods. And on the other hand attributing the tax revenue from imported goods to the funding of our national social security would mean that the social contributions levied on the whole national production would not need to be so high. In this way, the increase in price, owing to the tax, of a domestic product may be lower than the reduction in its cost resulting from the abolition of part of the social charges and its sales price would therefore go down.⁴ The prices of French products would thereby become more attractive in two distinct but complementary ways.

Third, **to increase the competitiveness of French goods on export markets.** No VAT is levied on exported goods and their production cost would therefore go down by the full amount of the reduction in social contributions. And such competitive gains would be proportionally higher in the case of goods produced with a high labour input.

All these advantages would have an immediate effect on the siting of labour-intensive industries because, taken together, **they would make the consumption of French products more attractive.** In addition, they may be reinforced by two considerations of another sort.

The first is that to base the funding of that part of our social security system which is concerned more with the principle of solidarity, rather than with insurance, on consumption instead of on employment would be a way of guaranteeing the future of the French social model. Household consumption tends to move upwards and its fluctuations are less marked than those of the labour market, so the change would provide steadier funding of social security. The recurrent difficulties of the latter, particularly concerning sickness insurance, would thus be sustainably reduced – at least as far as receipts are concerned.

The second consideration is that Competitiveness VAT need not be applied at a uniform rate : on the contrary, it could be organised so as to favour certain sectors or activities in accordance with clearly established political and economic objectives. It is in this perspective, furthermore, that the reform could be extended to cover existing rates of VAT , in order to render the structure more coherent, particularly with regard to its economic rationality.

(3) Objections that do not stand up to examination

Apart from the sheer difficulty of undertaking the reform, which is undeniable but that your Commission could not consider prohibitive,⁵ three categories of objections can be raised against it.

⁴ This potential indirect gain depends on two variables : (a) From revenue drawn from subjecting imported products to Competitiveness VAT must be deducted the revenue lost by not subjecting French exports to this tax ; the overall margin of manoeuvre with regard to the sums available for financing social security will thus be a function of import-export ratios. (b) The size of price reductions rendered possible will vary from one product to another depending on the importance of social contributions in their cost structures.

⁵ In as far as this difficulty is a political one : it is relatively simple to calculate the average rate of the Competitiveness VAT such that it will compensate for the loss of social revenue owing to the abolition of the contributions in question ; and it is hardly impossible for the experts to work out two or three different rates to secure the economic objectives

- **The first is an objection to the creation of another indirect tax, considered unfair because it is supposed to hit the lower incomes hardest.** Numerous economic studies show that in reality VAT is more onerous for middle incomes than for lower incomes, and that it only appears to be a regressive type of tax.⁶ But apart from that observation, there are three arguments against this criticism :

- First, as our colleague Mr Jean Arthuis pointed out to the Working Group, all taxes and charges paid by companies are financed out of their revenues – and hence finally by the consumer. For this reason to replace one mode of funding sickness insurance and family allowances by another will be globally neutral for the consumer, whose choice relates only to the contents of his “shopping basket” ; and one of the objectives of the reform is precisely **to motivate** him to buy more French products in place of imported ones made dearer by being subjected to Competitivity VAT.

- Second, as indicated above, the rate of this tax need not be **a uniform one**. This allows one to envisage that the rates could be determined **taking into consideration the average structures of consumption of different income groups**, so as not to deform this structure and to guarantee them that their purchasing power remains unchanged.

- Last, the aim of your Working Group’s proposal is **to support employment** in France and thus contribute to the lowering of unemployment. People who return to work become better off and enjoy increased purchasing power. Any disadvantage that could be introduced with the reform is likely to be more than compensated by the global advantages it brings.

- **The second objection is an institutional one :** funding sickness and family benefits by a VAT would jeopardise the nature of the social security organisation, called “*paritaire*”, in which the two parties (employees and employers) are equally represented – a form which is the fruit of some sixty years of history. Your Working Group is **of the view that, given the way the system has had to develop since it ran into financial difficulties, this objection is not valid**. Social security funding is **no longer just the business of the social partners**, as is **proved by numerous factors** : the creation of the Generalised Social Contribution (*CSG – Contribution Sociale Généralisée*) or the Contribution for the Reimbursement of the Social Debt (*CRDS – Contribution au Remboursement de la Dette Sociale*); various policies reducing or abolishing social contributions ; the annual vote by Parliament on the funding of the Social Security. **But these proofs, on the contrary, demonstrate that partnership can survive even when it has to adapt to a method of funding which resembles taxation**. Seen in this light, replacing certain social contributions by a Competitivity VAT does not seem to represent a dire threat to the joint management mode of our social security organisation. Nor is this contested by the Chairman of the Employers’ and Senior Managers’ organisations (*CFE – Confédération française des Employeurs; CGC – Confédération générale des Cadres*), Mr Jean-Luc Cazette, who himself has called for this type of funding, and for just the same reasons as those put forward by your Working Group.

desired ; the present system of collecting VAT could be used, without significantly increasing the cost ; it is only the actual switch from one system to the other which might be delicate : but in France it has been possible, in the distant past (creation of the VAT) and in the recent past (introduction of the Euro), to meet such technical and logistical challenges. On the political level, however, the reform will give rise to reactions since it will affect the various sectors differently : in this zero sum game, those which are labour-intensive will gain, at the expense of capital-intensive ones.

⁶ See in particular « Value-Added Tax » - The Tax Council – Nineteenth Report to the President of the Republic – Editions des Journaux Officiels – 2001.

One should add that the arrangements suggested would also be economical with public funds. By enlarging the basis of funding of part of the regime it becomes possible to do away with a complex system of exemptions from making social contributions that, although often justified on economic grounds, still represent a considerable burden on the public purse - while their efficacy is not always evident.

- **The third and last objection** is concerned with the feasibility of the reform with regard to **France's obligations within the European Union and internationally.**

On the European level, the regulation of indirect taxes being a matter within the competence of the EU raises questions about the latitude France has for introducing such a mechanism. The difficulties the Government encountered in order to extend to traditional restaurants the lower VAT rate applicable to labour-intensive activities indicate the need for a certain degree of prudence in the matter. However, three considerations seem to counter such reserves :

- **First, Denmark has already adopted this system and finances part of its social security by means of VAT**; this was not opposed by the EU institutions and the mechanism cannot therefore be considered in essence contrary to European prescriptions.
- **Second**, while the underlying principles of these prescription date from 1977 ⁷ , a decision of the European Court of Justice ⁸ , ten years later, distinguished between taxes of a fiscal nature **that were covered by the Directive and those that were not, depending on the use made of the funds so collected** : *“The notion of taxes, duties and levies which do not possess the character of taxes on turnover, as it appears in Article 33 of the Sixth Directive (...), should be interpreted in the sense that it includes a tax, of a non-fiscal character, (...) for the benefit of social security regimes (...).”* It thus seems possible, independently of the prescriptions of the 1977 Directive, **to institute a VAT with a social objective, distinct from the fiscal VAT, and in addition to the latter.**
- Finally, even if this last path could not be followed, **nothing prevents changes in VAT rates within the framework of EU provisions.** These provisions define certain categories of rates and specify which sectors may be exempted from the normal rate. And this normal rate, like the other rates (reduced, super-reduced, “parking”), is not strictly defined : each Member country is free to fix its own rates subject to **the minimum limits set for the normal rate (15%) and the reduced rate (5%).** For example, the normal VAT rate applied within the 15 Member countries varies at present between 15% (Luxembourg) and 25% (Denmark and Sweden). France, with 19.6%, comes almost exactly on the EU average of 19.4%. So nothing prevents France from increasing its normal rate, as well as its reduced rate, by the number of points necessary to compensate for the abolition of certain social contributions.

There remain certain questions about **the compatibility of the system with the rules adopted in the World Trade Organisation (WTO)** : would a Competitiveness VAT represent **a protectionist measure susceptible to sanctions?** Your Working Group says No. This position has not been legally validated by competent authorities, but it is one of common sense. **Since French products and imported products would be subjected to the same tax** and in the same way, **France could not be accused of introducing a**

⁷ Directive 77/388/EEC of the Council of 17 May 1977, called the Sixth Directive, modified and complemented by Directives of 1992, 1999, 2001 and 2002.

⁸ SA Rousseau Wilmot v ORGANIC – 27 November 1985 – Case concerning the legality of a levy on turnover for financing the pensions of self-employed workers and shopkeepers.

discriminatory measure contrary to international undertakings. Furthermore, the Danish example, again, supports this position.

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Your Commission considers this reform essential. A Competitiveness VAT will not, of course, reduce the cost of labour to such an extent as to place it on a competitive footing with that of emerging countries. But this way of financing social security seems **truly modern in the sense of being adapted to the new conditions of economic activity** : globalisation and increase in world trade have rendered **obsolete our existing arrangements for social contributions**, which can be **effective only in a system that is closed and constrained** (fixed prices, high customs duty, controlled foreign exchange), in which competition was exercised **within a defined geographical territory and the possibility of migrating was limited**. When some 20% of products consumed in France are imported **it would be paradoxical to continue to penalise our own labour by maintaining a system whereby the part of our social expenditure relating to social solidarity is funded exclusively out of that labour**. It would be not only paradoxical, but also culpable, because the *status quo* would only aggravate the difficulties our producers are experiencing in the face of ever-increasing competition from emerging countries.

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 competitiveness 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 effect of 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. **All company subsidies are abolished.**

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 sovereignty;
- 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.

THE OLD KING (2004)

In an ancient civilisation, people had understood **that both parties to a barter became better** off since each developed his abilities and thus exchanged the fruits of his labours with those of others. In those days, **one might**, for example, exchange a sheep against fruit and vegetables from another. Later they invented barter with a time delay: “I give you a sheep now and within three months you give me the agreed amount of fruit and vegetables.”

Since few people knew how to read or write at that time, pieces of metal - or money - came to be used as earnest of the barter agreement.

A system of trade developed that could be applied **to various transactions** ranging from basic needs to the exchange of services: “Jack builds a cottage for Peter; Peter goes hunting for Paul; Paul delivers fruit and vegetables to Jack.”

Some of the older people took to educating children. Those who felt capable of it defended the village against invaders. One, a wise old man, dispensed justice; another was a healer. **For their services they were paid in kind or in money**, which became tokens of trade. Mothers and fathers took care of their children and shared the work.

The system worked well and **profited** the inhabitants of a village or town. **Other towns** had different trade tokens, other moneys, and varied contacts grew up between different communities and gave rise to **commercial exchanges**. The different trade tokens – or moneys – were exchanged, and even people from the same community were happy to accept money originating in neighbouring towns, for it allowed them to buy goods from foreign salesmen. **Very soon traders began to accept moneys from other towns, which increased their opportunities for trading.**

As trade developed, **some crooks** started forging false money. Such forgery was severely punished, and one counter-measure was to mint money out of **precious metal**.

And what happened when **large undertakings of public benefit** were to be carried out? Like the construction of a new road or a port?

That could not be bartered ...

Mostly, **each participated** according to his means and finally everyone became involved in offering their services for realising such large undertakings.

One old King had found another way of doing things. **He minted supplementary coinage**, which he gave to those who worked for the public good.

“I shall see to it,” he said, “that those who receive this money will be quite sure of being able to exchange it, with me or with others, for food or other things.”

Thanks to the new roads, convoys, laden with pepper and salt, coffee and chocolate, were able to reach the town. **The old King** put customs guards **on the gates of the town** and inhabitants who wanted to buy spices from the foreign traders had **to pay taxes proportional to the amount of stuff they bought**.

In this way the King **recuperated the money** he had paid out to the population for working on public projects.

Nothing prevented him from undertaking other major public works so long as his subjects continued to buy foreign goods on which he could raise taxes.

But soon there were no more big public works to be carried out, and the King noticed **that the number of beggars was going up**. Some beggars begged so convincingly that they took in more money than those who worked hard in the fields. But there were also some, unable or too proud to beg convincingly, who remained really needy.

The King said to himself: “Remembering the period of major public works, I shall distribute money, but this time to everybody regardless of whether they’re in need or not. What I shall distribute will not be much but will meet people’s first needs.”

At the same time he instituted **a tax on jewellery** that people came to buy at the town gates. It worked very well. There was less stealing and everyone had more money and spent more.

To buy what? Food from the farmers, better shoes from the cobblers, beer at the inns, spices and jewellery. Farmers and cobblers grew richer, inn-keepers received more and more money; the town guards received more and more by way of taxes on the sale of spices and the well-to-do wanted more and more jewellery. Everything in the kingdom was going very well.

Then the King said to himself: “And what if I handed out a bit more money to everyone, and increased the taxes on spices and jewellery?”

That’s what he did. And at once poverty disappeared. Everybody spent their extra cash so that there was even more trade. More people could afford to buy jewellery and spices.

One day **the good King died**, in peace of mind, satisfied with what he had done for his people. **His eldest son succeeded** him in accordance with the custom in those days, for it had not yet been realised that women were at least as able as men at administration.

The son thought he had understood the lessons of his father. He said to himself: “All I have to do is to continue to work the system set up by my father and gain a bit more money by increasing taxes.”

But he did not give this extra money back to the people. He just distributed it among the people around him, at his court.

In the beginning that passed unnoticed, but his court started growing and needed more and more money. Taxes on spices, delicacies and jewellery kept going up, and the people, getting nothing in return, were not really satisfied having always to pay more; nevertheless they said that the new King must know what he was about. However, fraud started increasing and the new **King had to engage staff to fight against it.** He also had to build prisons, whereas before there was no need of them.

He acquired the image of a rich and powerful King who pleased the ladies of the court, and invited neighbouring princes to join in his festivities and admire his success.

Faced with this state of affairs, the number of discontents went up and criticism flowed freely. Times became hard, and people began to save money rather than buy spices and jewellery, **which caused the King’s revenues to fall.**

So, he decide **to reduce everyone’s allowances** – those that his father had put in place. He said to himself that people only had to work more to earn their money.

The people’s discontent turned to anger. Beggars appeared in the town again and the citizens had to lock their houses every night to avoid being burgled.

The people spent less and less, and less and less tax revenue found its way into the coffers of the King and his court.

So, the new King decided that when the people traded with each other – for example, 6 chickens against 24 cauliflowers –, one third of the value of the transaction should go to the King: in this example, 2 chickens and 8 cauliflowers.

The King had to engage staff to put the system in place and he had to strengthen the forces of law and order.

All that, naturally, **cost money** and when he looked at his accounts he found that **his reserves were going down every minute.**

But the majority of the people thought that **the King only had their good in mind** (and that, incidentally, is exactly how the King thought about himself). “After all, is he not the son of the good King? No-one could do better. Times are hard and we just have to tighten our belts,” they thought.

The new King went so far down this path that **he began to tax the work** of the nurses looking after the old as well as the work of the women who looked after the children of other women who had to go out and work very hard in order to pay the taxes the King had put in place.

Until the day when certain young people could no longer stand it. They had heard talk of the old King and that in his reign the only taxes were those paid on luxuries, that trading was free of tax, that there were no controls and that practically no police force was necessary, because there were few thefts and little poverty.

So it was that one day this very active group of young people, accompanied by some older wise folk, **left the town with arms and baggage.** They went to set up a new town, sufficiently far away. They built it, together with roads, and there applied the principles of the old King: everyone could trade freely and everyone received each week a sum of money to start the week with. And it turned out that merchants came to the new town, so that taxes could be levied on spices, delicacies and jewellery.

The group of pioneers decided furthermore that, in future, power could not be left in the hands of one person and that all those who had built the new town should designate a responsible chief. **The inhabitants of the town could likewise decide** to replace the chief if he was not benevolent enough. They also decided that everyone should **be able to participate in important decisions** like the levels of the basic allowance and the taxes. In their new town the disaster they had experienced with the son of the old King could never repeat itself.

Roland DUCHÂTELET
(Founder and President of VIVANT)

THE STATE BASED ON THE RULE OF LAW PLACE OF JUSTICE AND STABILITY (2001)

A. What is the rôle of the State?

“**The State, it is I**” proclaimed Louis XIV and the Revolution of 1789 replied: “**We are the State!**”

This fight to reform the State often turned into a hell. So many victims of the revolutions of previous centuries; so many have forfeited health, dignity and their lives because of dictatorships and armed conflicts. The issue that has absorbed our societies over the last two centuries is indeed this: “**What is the role of the State?**” or “**What is its function?**”

Some say that it is a necessary evil for those who wish to live and act in freedom. Others maintain that it is the guarantor of justice, of the rule of law and of wealth redistribution. Others again see it as the patron financing what the private sector will no longer finance. And today this patron seems to be handing those heavy financial charges which were entrusted to it, or which it simply assumed, back to the private sector.

B. The State and states are losing power

The key question is to find how to regulate the uncontrolled side-slips and dysfunctions of the economy, to guarantee the continuity of power of the State and to determine the limits of its power.

In Belgium this issue is often consigned to oblivion on account of the State’s own dysfunction and the constant questioning of its capacities and powers.

Broadly speaking, **the powers of decision** of the nation states have diminished as those of the major institutions -- like the UN, the European Union, the banks, the financial exchanges, the International Monetary Fund (IMF) -- have increased. And add to this state of affairs the pressures of the global market.

The State or states, that is to say the locally elected representatives of the people, are no longer in command, and when there is an opportunity to become part of a larger entity like the European Union or the United States of America, decision-making powers are raised to a higher level, which is supposed to be more effective, while respecting the regions and their particularities.

C. Are the IMF and the European Union supranational States?

A look at less favoured states, such as Russia or those of Central Africa, shows that the IMF applies to them decidedly draconian measures: monetary devaluation to boost the receipts from exports which guarantee repayments to the lenders financing external debt; reduction of public expenditure, particularly social expenditure; reduction of subsidies; push for privatisation of the economy at the expense of the least fortunate. Even within the European Union we accept disparities in social policies: this is the case for the United Kingdom, and it distorts the effects of European economic and social measures.

What's becoming of this European structure which, because of its heavy institutions paralysing decision-making in our accelerating world, runs the risk of an accident of growth?

What will this new Europe be in 10 years' time: a new Entity (State?) **based on the rule of law and on justice, invested with democratic, economic and social responsibility?**

What, exactly, is this IMF, this financial super-State which prescribes remedies and does nothing to guarantee the redistribution of wealth?

The IMF is rich and dispenses considerable loans decided on by a majority among the United States, Japan, Germany, France and the United Kingdom - for these are the major investing countries.

What did the IMF regulate by confiding to Russia enormous sums of money which returned to their source on the Western stock exchanges so as to enrich a few oligarchs?

In such a situation, an authority worthy of the name should **be able to foresee this sort of perverse mechanism** and prevent enrichment coming from these funds, which contribute nothing to the real development of the country.

Has the IMF become a SUPER-SPECULATOR?

Of course, Russia is a specific case. Too much of the STATE (70 years of communism) had led to the belief that to get rid of IT was a miracle cure-all solution. But, in the presence of the new powers, it was dangerous for the inhabitants of the former Soviet Union, **who had lost the habit** of free thought and of what this demands in terms of responsibility and a critical approach.

And in this respect how do other regions of the world fare? What are the bases of **this education in responsibility? Are they still present** in Belgium and other European countries for example? Or are they too in danger?

D. Breaking with the State and aspiring to something else

To decide on a social rupture while ignoring **its social cost** is to fail to **understand** -- even to disparage -- **the human being**. And that, unfortunately, is what happened in the former Soviet Union.

Did this rupture with the State result from a decision or from a general aspiration to something else?

"SOMETHING ELSE" than war and want, a quest for peace and stability -- that was the aspiration of the European idea.

This idea is "on its way" ... But where -- in what places -- are the expressions of this "something else", consisting of more social cohesion and less economic warfare, to be found?

Certain movements are taking up the task, but they are still too few.

E. The search for places of regulation and a centre of gravity

With today's globalisation we run the risk of having no PLACES OF REGULATION strong enough to handle deviations and support initiatives favourable for a durable future for the Industrialised World and the Third World.

Our world is one of conjecture and short-termism, of haste and imbalances, and our civilisation finds it difficult to locate **its centre of gravity**.

The true centre of gravity on which everything should converge is the dignity of **the human being**, of all human beings duly recognised in their cultures and with their special characteristics.

If criminal habits and mafia-like behaviour are not to become the norm, the ORGANISATION OF SOCIETY should be centred on RESPECT: respect for the human being, respect for the environment, respect for the rule of law at a global level by all actors on the stage.

Concrete measures therefore need to be put in place which protect and promote the rights and duties of the individual.

In this perspective, the State is no longer either an “I” or a “WE”, but simply a regulatory and promotional tool democratically mandated and democratically organised everywhere to the same end: **to guarantee all human beings the same fundamental rights -- biological rights (to live in good health), political rights, social rights and economic rights**.

It is democratic will (and not only a power) that determines that the State as an institution is **the indispensable** framework for guaranteeing the harmonious and stable continuity of society.

It is faith in the individual, precisely, that points up the wisdom of creating a **regulatory framework** which enables each one **to take responsibility** for his or her destiny, in spite of unequal starting-points, and which affords protection against injustices.

A decade ago 80% of the basic economy of the Republic of the Congo (ex-Zaire) developed around individual initiatives, so that, instead of finding its way back to the banks, money exchanged enriched a parallel economy based on efficiency and born of imagination. Waste materials were used to invent and produce things for everyday use.

Why not legitimise this kind of market and make it durable?

Why impose the draconian measures of the IMF, which, instead of guaranteeing the purchasing power of consumers in the “assisted” country, impoverish families for the benefit of its external lenders by means of currency devaluation? Instead of rendering an effective structure to the State, these measures drastically, and in undiscerning manner, reduce public expenditure to the point where even elementary social “cover” disappears.

Instead of promoting a **privatisation** of the economy which is patently the servant of the existing power structures and of international finance, why not encourage private initiative in the population, guarantee **an unconditional Basic Income**, set up micro-credit systems?

Why not **inject** into these nascent local economies capital grants coming from a Tobin Tax?

Where do we find the fruitful combination of **regulation** which guarantees better wealth distribution, **with promotional dynamism** that grants to each the Right and the Duty to build his or her own future?

It is true that our age has seen the creation of enormous wealth. However, present economic trends - characterised by slow growth, falls in values on the world's exchanges, lower corporate profitability -- perhaps indicate a need for overall restructuring, starting from scratch, through the creation of a new global economic order. It's the only positive lesson that can be drawn from the events in New York on 11 September 2001.

F. Defining the essential criteria

In order to manage the dynamics of such a transformation solid criteria need to be defined -- and stuck to.

The first concerns **the human being**: right to shelter, basic food and the means to secure one's future.

The second concerns the structure of our societies: **combining** common interests and individual interests.

The third concerns economic planning: **to include** with it, obligatorily and permanently, **an ecological plan and a social plan.**

These three criteria would oblige our economists to reason in another way.

Making Basic Income and regard for Common Interests obligatory means seeing the welfare of **the consumer in terms not only** of investment, but also of each one's purchasing power. The individual is no longer to be divided into compartments as consumer, worker, citizen, or whatever. That hypocritical schizophrenia is to be eschewed by which loving fathers (or mothers) of families once at the work place behave like assassins with their competitors and subordinates, and take decisions forgetting that they are dealing with fathers, mothers, children, who have, they too, the right to survive, to live... Such behaviour is blind to all considerations save economic ones.

An alternative is therefore needed to ensure survival. Each person must accept to make a financial contribution to **this other kind of solidarity.**

To impoverish the individual and the community by preventing them from working, or by reducing permitted working hours to 35 per week, is merely to enrich or save corporations for a time, forgetting that over a longer term they will have problems selling, for lack of solvent buyers.

To go all out for individual profit without regard for the wider picture is a mathematical reflex which sees only the immediate results of the equations without respect for the individual or common interests.

Our democratic States **must therefore recognise** their obligation to make it possible for each human being to lead a full and rounded life. In this way they will be able to become **places of justice and stability.**

Democratic choices must be the result of **long debate** and a referendum. **The ethical and economic choice** to guarantee respect for, and the dignity of, each individual and the environment should be approved by the population as a whole.

This should be **the starting-point** for all researchers and technicians in their search for appropriate solutions.

The State based on the Rule of Law can thus become the place of justice and stability, which can impose institutionally and with wisdom the obligation to develop the individual and society on the basis not only of supply and demand but also of technical, educational and cultural need and potential.

Politics is the art of making possible that which at first seems impossible.

G.The role of the State in our present world

The State is a regulatory and promotional tool that should overcome **immobility and habit** through political action. The State, place of justice and stability desired by civil society, is also concerned to counteract deviations.

For this to happen a **linkage** must exist between the three powers: **the legislature, the executive and the judiciary**. Our States are inundated with a mass of laws and regulations which accumulate, and are lost to view, as in a haystack.

Mastering the legislative tool is becoming difficult ... just a raft of laws and decrees that are passed but never applied!

Does the fault lie with **legislative confusion**, or simply with the influence of the powerful?

Who gains from applying the brakes?

It is for this reason that other places of debate, regulation and power, like referenda and participative budgeting, have become necessary -- to act as a counterweight.

It is dangerous, too, to remove profitable activities from the public sector, and automatically to privatise them.

The State should also, by political and legislative decision, guarantee the **UNECONOMIC** in the interests of the citizen; but to do this does not mean taking away the economic activities, which provide income and jobs, products necessary for health care, food, leisure, culture -- it is no solution to take away from the State these income-generating activities, the reserves for a rainy day.

The challenge lies in linking public management and private management.

Realism and management rigour would do away with a budgeting system that encourages useless expenditure for the sake of ensuring the allocation of the same budget for the following year.

This is wasteful, mediocre and irresponsible management.

Allowing the public and private spheres to be linked, and carrying out a permanent reform of the judicial function, will permit the State to be the guarantor of stability and durable development.

The 21st Century will then be able to take shape, not in a jungle of armed or economic conflict, but founded on realistic **MANAGEMENT**, seeking to push ahead the frontiers of the possible.

Assured of such a process, human beings will have less fear of becoming the victims of convulsive movements of history, and take their future into their **own hands**.

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