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Meritorious Currency: A Currency Against Famine

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Abstract

The objective of this article is to propose the creation of a currency called citizenship currency, totally guaranteed by financial resources from provisional contribution on financial activities (CPMF), which would be made permanent.

In its more ample form, called meritorious currency, we incorporate individual contributions made by people that pay income tax to the revenue system, contributions originating from the sum of taxes payable by people. We believe that meritorious currency can be the embryo of a policy aiming at the provision of income security as a right mainly because it provides the monetary resources to implement the income security.

1. Introduction

The objective of this article is to make a macroeconomic proposal aiming to reconcile two goals:

- the eradication of famine in Brazil;
- the maintenance of monetary stability in Brazil.

The first objective refers to what we call social stabilization and the second to what is called economic stabilization.

Economic stabilization does not imply social stabilization. In fact one could question what would justify the maintenance of an economic system incapable of eradicating famine.

Our answer is that nothing justifies it provided a better alternative is found; but as evidenced by twentieth century history, socialist alternatives gave rise to systems that hindered individual liberties, simultaneously leading societies to stagnate. Hence we have to resort to seeking alternatives in the capitalist production system.

The "barter market" that emerged in Buenos Aires, resulting from the Argentine crisis, influenced the ideas presented herein. We purposely put "barter market" between inverted commas because it is not really a barter market, but the embryo of a monetary market that needs a legal rule (recognized legally) to become the embryo of a legal currency. Besides this introduction, the study also comprises a section where we present the controversy regarding income distribution and growth, showing the factors that are leading to the challenging of the hegemonic position, which is contrary to the redistribution of income as a form of promoting growth.

Afterwards we present the proposal, which in its most restricted form is based on the creation of a currency called citizenship currency, totally guaranteed by financial resources from provisional contribution on financial activities

(CPMF), which would be made permanent (we will maintain the same abbreviation for both contributions).

In its more ample form, called meritorious currency, we incorporate individual contributions made by people that pay income tax to the Revenue System, contributions originating from the sum of taxes payable by people. We believe that meritorious currency can be the embryo of a policy aiming at the provision of income security as a right mainly because it provides the monetary resources to implement the income security.

The study ends with a conclusion, where we have included the proposal regarding the controversy on income distribution and growth.

2. The controversy referring to income distribution versus growth

The post Keynesian economic theory focused on the analysis of economic growth, and representatives include Nicolas Kaldor, Luigi Pasineti and Kenneth Bouding, was fully in favour of the vision that economic growth needs an unequal distribution on income (Rimmer, 1993).

This is because boosting the marginal propensity of those with the income can only increase the portion of income that is saved.

Economists that support these theories argue that the most effective way of increasing the volume of savings in the economy is to channel income to those that are relatively wealthier since they have greater marginal propensities to save and as a consequence the investment, i.e. the engine of economy will be larger.

Redistributing income in favour of profits, since individuals with a higher income have a higher marginal propensity to save would do this, thus increasing the volume of savings (Rimmer, 1993). This outlook is extremely sceptical of the proposition that redistribution in favour of the poor would induce economic growth.

Another version, which is currently becoming representative, is concerned with the internal balance of the economy, represented by the full use and by the external balance of the economy, represented by the equilibrium of the balance of payments.

According to economists from this group, the macroeconomic policy should not be used for redistribution purposes (McKinley, 2001). These economists believe that the main objectives of the macroeconomic policy should be the pursuit, attainment and maintenance of an internal and external balance for the economy, without which the stability of prices and of the GDP growth would be threatened.

The threats to the internal and external balance of the economy include populist income redistribution policies.

McKinley (2001) sustains that this line of reasoning involves some problems:

§ it tends to reduce macroeconomic policies to short-term policies geared towards economic stabilization;

§ these stabilization policies frequently undermine long-term bases for economic growth;

§ the prevailing logic disregards the fact that practically all macroeconomic policies present redistribution effects;

§ populist redistribution policies that are frequently criticized were not intended to benefit the poor. Proof of this are the Latin American proposals, such as the minimum salary legislation and social security programs that originally benefited the formal sectors of the economy.

Traditional views, both the Post Keynesian and the one that is overly concerned with the short term have been suffering criticism as regards the recessive effects of their recommendations.

Recent historical evidence is accumulating to show that certain forms of redistribution stimulate growth, instead of retarding it (McKinley, 2001).

A re-evaluation of the trade off between equality and efficiency occurred more recently, focusing originally on the human capital theories. Estimates regarding the contribution of forms of capital towards economic growth have demonstrated that human capital represents two thirds of the total, with natural capital and capital produced by man representing a third (McKinley). Considering that the stock of human capital is increased by education, training and nutrition, any policy to eradicate famine is welcome. Also considering that the majority of empirical studies show that the return rates on a primary education exceed those of higher levels of education, (McKinley, 2001) the option should be for redistribution policies for the poor, conditioning them to enrolling their children in schools, because education is the principal factor that increases the stock of human capital.

Corroborative evidence in relation to Latin America suggests that anaemic growth rates are related to the lack of a more equitable distribution of productive assets, principally human capital (McKinley, 2001).

If on one hand, those that privilege human capital as the basis for an alternative economic growth theory agree that investing in education is primordial, on the other hand they disagree on which form of education would be best suited to leverage growth.

One theory among those that have supported the proposition that the accumulation of human capital increases the level of efficiency in an economy is in favour of investments in more advanced forms of education, mainly university education, and investments associated with research and development, which imply a demand for specialized skills, obtained in higher education. Thus investing in the skills of the poor would reduce the economic growth rate.

It is worth emphasizing that high quality upper education does not exist without a solid academic basis obtained at the primary and secondary levels. Hence the discussion shifts to the question of who should provide primary and secondary education. Since primary and secondary education is paid, the poor do not have access to it, which is why it should be provided by the State to observe the principle of equal opportunities. Obligating individuals that will be receiving meritorious currency to put their children in school or to further their studies is simply a question of common sense.

Another problem occurs with the orientation of investing heavily in upper education, since this could reduce the relative number of workers with enough basic education to supply most industrial work. As we have already emphasized, all the forms of education are essential, and the most important thing is to discuss the division of tasks between the public and private sector.

Another essential issue in the debate on income distribution vs. growth is related to economic efficiency. In other words, can a fairer distribution of productive assets, particularly a distribution that favours the poor, foster an increase in efficiency? If the distribution of assets is not as efficient as a more unequal redistribution, which should we opt for? Taking the economic return rate into consideration, the more unequal distribution would be preferable.

However, as sustained by McKinley (2001), if the option is on the human-development basis, equitable distribution could be ideal.

From a strictly economic viewpoint, efficiency is conceived in terms of the magnitude of the product of goods and services produced, taking a given use of inputs into account. From the viewpoint of human development, the product alone is not an end in itself, since one can also question whether the goods produced increase human well being.

McKinley discusses a second type of efficiency called human development efficiency, which is concerned with the issue of how the production of goods and services can be translated into human development.

This perspective raises questions on what is produced and for whom.

Merely as an example, should the production of luxury goods, which implies a higher return rate, take preference over the production of consumer goods?

From the point of view of efficiency for human development, the basic level of human development (as measured by the Human Development Index or the

Capability Poverty Measure) can be relatively high or low for the same product level, represented by a nation's product per capita.

When income is utilized to measure poverty, a positive relation is generally encountered between the growth of the average income per capita and the percentage of persons that exceed the line of absolute poverty. In some cases growth can be miserifying (increasing poverty) implying that absolute conditions of the poor have become worse. In some cases growth ignores the poor, maintaining them in the same condition they were in prior to the growth. Sometimes the average income per capita of the poor might not be increasing as much as the average income per capita of the entire population. If we consider the objective of reducing poverty as essential, in this case growth would be inefficient. When we consider that the degree of inefficiency should be measured by the lack of basic capabilities, and not by income, a set of inefficiencies can be observed. When technological innovation cuts down on labour, this represents unemployment for thousands of workers. When a technological change does not occur in the production of foodstuff and housing, generally the two most expressive spending items of the poor, the cost of life poor people are faced with does not decrease.

The implication is that for the same sum of natural resources, a higher or lower portion of human development can be obtained. In other words, not only is the product level important but also its composition. Questions like what is being produced and for whom assume relevance.

Another clash between the traditional vision of the economic growth theory and alternative visions is related to the structure of incentives. The economic theory sustains that a more efficient allocation of financial resources is obtained by utilizing a neutral system of incentives, i.e., an economic structure where the capital migrates to sectors with the highest return rate and not to sectors where the imposition of artificial prices artificially favours the allocation of financial resources to a sector, like in the case of PROALCOOL in Brazil, a program to motivate the use of an alternative automotive fuel, alcohol, during the oil crisis.

When oil prices dropped, the price of gasoline decreased, criticism built up against the alcohol program and it is now stagnated. McKinley (2001) questions whether a set of neutral incentives, i.e. that does not artificially alter relative prices, also favours the reduction of poverty.

The traditional answer would be that this structure gives rise to a more efficient allocation of financial resources, which in turn stimulates a more rapid economic growth rate and consequently a more rapid reduction of poverty. McKinley (2001) argues that the reasoning above does not guarantee that economic growth is not accompanied by an increase in the disparity of income, which would leave a considerable portion of the low-income population without the benefits of economic progress. Furthermore, financial resources could very well flow to sectors where productive assets are concentrated, i.e. where the intensity of capital is high, where human capital is abundant, where technology is advanced and where the economic infrastructure is well developed.

The option for these types of productive assets can signify the abandonment of various sub-sectors of the agricultural sector, where the opposite is observed. In this case an incentive system that artificially alters relative prices could be beneficial for the poor.

Another issue to be debated is the allocation of production factors to the poor to enable them to be active agents in the economic growth process.

Examples of this are the micro credits for workers to become micro or small producers capable of generating jobs and income.

McKinley (2001) sustains that if the structure that prevails in the economy is adverse to sectors in which the poor are concentrated and is against the production factors that the poor need to survive, the transfers from the state to the poor (minimum income is one of them) will not guarantee the improvement of their condition. The reason for this affirmation is that the persistency of this type of macroeconomic policy would make it necessary to include a larger contingent of persons in the minimum income program, leading to the insolvency of the original program. Thus it is essential not only give them the fish (basic income), but to teach them how to fish (induce the creation of jobs). In this sense the allocation of production factors for the poor indigent by means of a micro credit loan system is fundamental.

We will now focus on our proposal.

3. Proposal

Generally speaking it is based on alternative growth theories, where human capital plays an essential hole.

Since the proposal does not privilege investments in sectors with the highest return rate, it is included in the alternative human development theory and not only in the growth of the domestic product.

Like every other proposal, it must be submitted to society to be discussed in the debates necessary to improve or reject it.

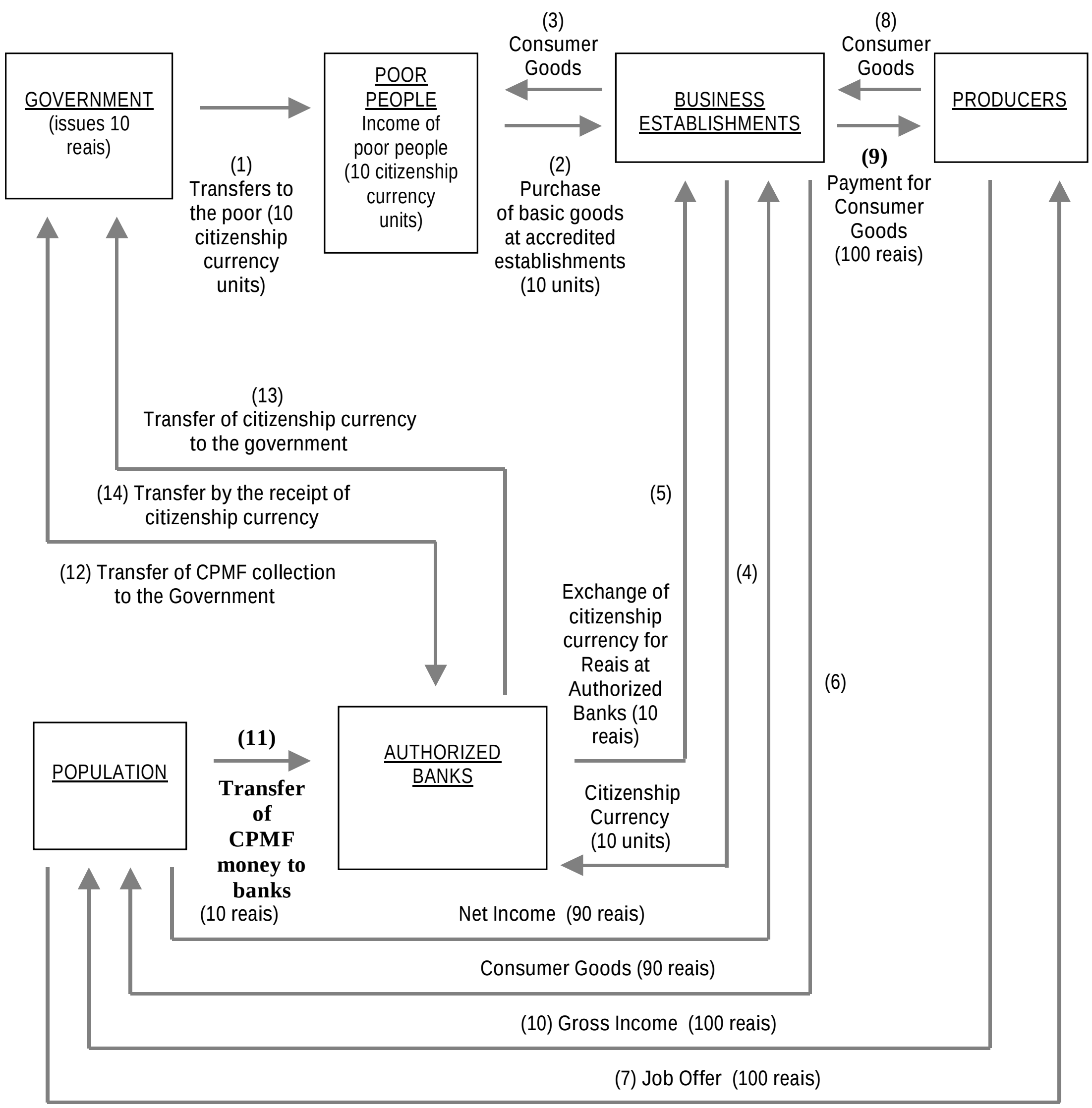
Let us assume that a country has an income, which can be utilized for consumption in the amount of 100 *reais* per annum.

Let us also assume that the transaction of this income via banks allows the public sector to collect 10 *reais* per year as contribution on financial transactions. This contribution is nothing more than the provisional contribution on financial activities (CPMF), which already exists in the Brazilian, and Argentine tax systems. Provisional contribution on financial activities would be transformed into permanent contribution on financial activities (we will maintain the same abbreviation to designate both the existing contribution and the contribution we believe should be deployed).

We will presume that CPMF will be utilized to guarantee all the currency against famine hereinafter designated citizenship currency, and that the maximum amount of this currency that the government could print would be 10 *reais*, i.e., one monetary unit of the citizenship currency would be equivalent to one unit of the Brazilian currency, the *real*.

Figure I illustrates what would occur, evidencing that no currency is created. Since the poorest individuals do not have a bank account the scheme would certainly redistribute income.

Figure 1. Issuance and circulation of citizenship currency. Restricted project (considering the money collected by CPMF)



Source: Drawn by author.

We have described all the steps of the process in detail.

To start off the Government issues the equivalent to 10 *reais* in citizenship currency and transfers (1) to the poor (although it is an important issue for discussion, we do not intend to discuss which poor people would be originally benefited here; the issue is complex since an individual with a small monetary income could be in worse conditions than an individual linked to the barter economy ("*cabocla* economy"), such as an Indian or *caboclo* from the Amazon who makes a living from natural resources).

The sum to be transferred in this first scheme should be equal to the sum collected with permanent contribution on financial activities (CPMF).

To simplify matters, we will assume that the value of one unit of citizenship currency is equivalent to one real.

As a rule this currency could only be spent on food (this assumption will be abandoned further on) with a theory in favour of consumer good expenditures (durable or not) and even any other type of good.

Hungry people in possession of a sum payable to them would visit food stores (2) that would retain the currency for the food, at the same time they would transfer consumer goods to the poor (3). These establishments would exchange citizenship currency for CPMF collection at banking establishments (4) and (5).

The population with income, which would initially have 100 *reais* of income, would have 90 after the financial transaction of this income and the respective taxation (CPMF). The population spends the 90 *reais* on consumer goods at commercial establishments (6).

The income of the population originates from labour provided to producers in the amount of 100 *reais* (7), which produce consumer goods in the value of 100 *reais*. Readers educated according to the teachings of classic economy might question why we have omitted the creation of value in production, one of the greatest discoveries of classic economists. Our objective was to simplify the reasoning, but no producer would produce if the value entering the productive process were equal to that exiting the same process. Producers sell consumer goods with a value of 100 *reais* to commercial establishments (8) and receive 100 *reais*, (9) money employed to pay for the work of the population with an income

(10). Banks retain the CPMF money payable by the population (11), transfer the citizenship currency obtained from merchants to the government (13) and transfer the CPMF money to the Government (12), receiving 10 *reais* for the transfer of the citizenship currency thereto (14).

In the proposed scheme the only two unilateral transfers occur between the Government and the poor and between the population and banks.

All the other transfers move in two directions, i.e., money is transferred from one point of the system to another, at the same time as goods or work move in an opposite direction.

The money issued by the Government, which represents the creation of currency, is offset by taking income away from the population by means of CPMF taxation.

One could counter by saying that since the money was issued prior to taxation, the scheme is potentially inflationary, but in reality taxation occurs in the same time interval as the issuance, with offsetting.

Even if the issuance were prior to the taxation of the population, the increase in expenditures by the surplus currency (equivalent to 110 *reais*) producing a price increase would be offset by a subsequent retraction of the monetary demand (equivalent to 100 *reais*) causing a price retraction.

This first scheme is extremely rigid since it obligates commercial establishments to go to banks to exchange citizenship currency for CPMF financial resources, in order to avoid any currency creation.

A less rigorous alternative can be conceived along the lines of the Buenos Aires "barter market".

This market, which is not really a barter market, appeared as a result of the Argentine crisis, where the unemployed need to exchange what they produce in a given period (flow of wealth produced) and even part of the accumulated wealth (stock of accumulated wealth) to satisfy basic needs, (an expression with a more ample connotation than appeasing hunger). In this market, each participant receives a quantity of credits, depending on what it has to offer.

Once in possession of the credits, the individual seeks goods to his or her taste, validating the private labour incorporated in other goods with payment (utilizing credits).

Since credits are widely accepted and validate private labour, they act as a general equivalent, hence corresponding to currency.

The difference between what occurs in this market and the spending of citizenship currency in the first scheme is that validation is now more ample, not only including the wealth produced in the period but also stocks from prior periods, and readers may question what would occur with the citizenship currency value in relation to the peso (or the real if the scheme were deployed in Brazil).

In the case of Argentina, the "barter market" has already provided the answer.

A credit unit is worth two pesos, reproducing in reality what economists that believed in productivity as a determinant exchange rate factor have already been demanding for some time: the devaluation of the peso vis-à-vis the dollar. (Basso, 2002a)

Wouldn't we run the risk of increasing the discount (devaluation) imposed by the market on the citizenship currency (devaluation of the citizenship currency against the real), producing inflation in citizenship currency?

Not if the quantity of credits (i.e. of citizenship currency) could be controlled and periodically exchanged at banks, observing the devaluation established by the market.

If goods could be exported, the devaluation would make goods produced for "barter" more attractive then goods from the formal economy, expressed in pesos in the case of Argentina.

A third more audacious scheme involves the creation of citizenship currency, permitting loans to be contracted in this currency, providing they are incorporated in the micro credit schemes to expand the offer of foodstuff. We can justify the supply of credit as the engine of capitalist growth by making use of the principle of effective demand of Keynes that states that, despite the identity between savings and investments in a closed economy, investment determine savings, and not the other way around (Amadeo, 1989). To increase the volume of investment, credit is essential. As far the desirable amount of credit to be created, we can employ the theory of Milton Friedman, who utilizing a dynamic version of the quantitative theory of money emphasized the importance of currency growth at the same growth rate of the real product only.

The simplest version of the quantitative theory of money can be expressed as:

$$M.v = P.Y$$

Where:

M = the stock of means of payments, i.e., the paper money in the hands of the public plus sight deposits by the public in Commercial Banks

v = currency circulation speed

P = a price index, and if we were to cover the entire economy, the product implicit deflator

Y = index for the real product

This equation can be transformed into a dynamic equation, which represents temporal changes.

Thus:

$$(D\mathbf{M}/D\mathbf{t}) \mathbf{\ x\ 1/M} = \hat{\mathbf{M}}$$

$$(D\mathbf{P}/D\mathbf{t}) \mathbf{\ x\ 1/P} = \hat{\mathbf{P}}$$

$$(D\mathbf{Y}/D\mathbf{t}) \mathbf{\ x\ 1/Y} = \hat{\mathbf{Y}}$$

$$(D\mathbf{v}/D\mathbf{t}) \mathbf{\ x\ 1/v} = \hat{\mathbf{v}}$$

and considering a constant speed of circulation, we obtain the equation

$$\hat{M} = \hat{P} + \hat{Y}$$

This equation shows that growth is possible for the supply of money, (from a long-term perspective), only in proportion to the growth of the real product.

Growth rates above those attributed to the real product will be translated as inflation.

Thus citizenship currency can be expanded at the same historic growth rate as that of the real product. To avoid the creation of currency to the extent possible and to impede the suffocation of the scheme due to the fact that wealth accumulated in prior periods is also transacted in the current period; a more comprehensive scheme can be conceived. The stock of goods does not only comprehend goods produced in the period (flow of goods) incorporated to the stock of wealth, but also goods belonging to the poor and that these individuals might want to sell (stock of wealth accumulated from prior periods of production).

Thus the quantity of currency necessary is not only that needed to realize the product (a flow) but also part of the accumulated wealth.

This means that we can increase the stock of currency transferred to the poor.

Since this currency is transferred from the population with income to the poor, by a spontaneous decision of the population, without any enforcement on the part of the State like in the case of citizenship currency, we will call this currency voluntary currency.

This is the stock of currency that is added to citizenship currency. This currency would originate from voluntary contributions that could be made by income tax payers.

Each individual with a high income could help the less fortunate by choosing families with an income below the poverty line, or even without any income or a given institution, and would exercise the right, if desired, to transfer part of his or her income thereto, (perhaps exempt from taxation, stressing the need to introduce a limit for exemption, otherwise this would make the maintenance of the governmental cost with income tax non-viable). It is worth emphasizing that this income would be added to citizenship currency according to the wishes of the financing taxpayer, which would also stipulate the sum to be transferred. Since it involves a compulsory scheme (citizenship currency) and a program of voluntary action (voluntary contributions from individuals) we will call this currency meritorious currency.

The individual could abandon or choose another family if some characteristics were not being complied with (such as keeping children at school, for instance).

The relation here would be direct (individual with income and families or institutions) without the tutelage of the State. (This suggestion has already been proposed in Basso, 2001).

We believe that exercising the sentiment of solidarity could produce positive effects for those below the poverty line if there are direct relations between those willing to provide aid and those that are to receive assistance. As we emphasized, a voluntary outline could lessen the problem of the ones that starve. However the whole emphasis should be placed in the compulsory outline. A reason because we discredited voluntary arrangements is that the rulers and the people of the developed countries react in a different way when deciding to supply money for what they believe to be of their interests, relatively to that they consider to be of interest of another countries.

To lay a foundation to our belief we can observe what happened after the Millennium Summit, organized by the United Nations in September of 2000, in New York.

The countries committed themselves with the decrease by half in the number of individuals living below the poverty line, up to 2015 (measured as an income of 1 dollar a day - the number of persons living below the poverty line amounts to one billion).

The World Bank calculated that 40 to 60 billion of dollars would be necessary to reach this objective. Until the conclusion of this work (July of 2002) not much was done.

Be noticed that the objectives of the conference are modest because to reduce in half the number of people living below the poverty line (measure as an income of 1 dollar a day) during 15 years it would be enough to improve the position of the better slice (500 million people) and move them marginally above the poverty line. This leaves as an open question how to solve the problem of the other 500 million. Peter Singer (2002) affirms that there are about 900 million individuals living in the developed world, being 600 million adults.

A donation of $100 a year by each adult for the next 15 years could solve the problem. For an individual that receives US$27,500 a year, (being this the medium wage of the developed world), the donation is equal the approximately 0.4 per cent of the annual income, or approximately a dollar cent (0.01) for each $2 that it receives.

In spite of the ridiculous amount, nothing was made, and we don't believe that the result would be different with respect the rich people of Brazil. That is the reason for which the voluntary scheme should be complementary to the compulsory arrangement.

The reader could see a contradiction in our argument. We are emphasizing the importance of the principle of effective demand, which focus on investment as the engine of capitalist growth (Amadeo, 1989). But the main purpose of the proposal is to eliminate famine, i.e., the focus of the program is on consumption rather than on investment. Is it possible conciliation?

We believe it is. The idea is to connect the minimum income programs with micro-credit programs. These programs are directed to expenditures on investments, rather than on consumption (Basso and Ng, 2002).

Rutherford (2000) showed that in *favelas* (shantytowns) in India, an individual (that is rewarded with money) collects money from the *favelados* (shantytown dwellers) and channel it to investments. The novelty of this approach is that it directs to investments resources that could be wasted in consumption.

Since the money that an individual receives from our proposal is ridiculous (very small), people that get the meritorious currency would have priority to engage in micro-credit programs, as a way of increasing investment and employment. In this way the consumption of the unemployed walks side by side with investments. We also believe that the best way to measure the creation of value by the concession (grant) of micro-credits is to follow the economists that emphasize a monetary amount, like economic value added, instead economists that emphasize the rate of return (Basso, 2002b).

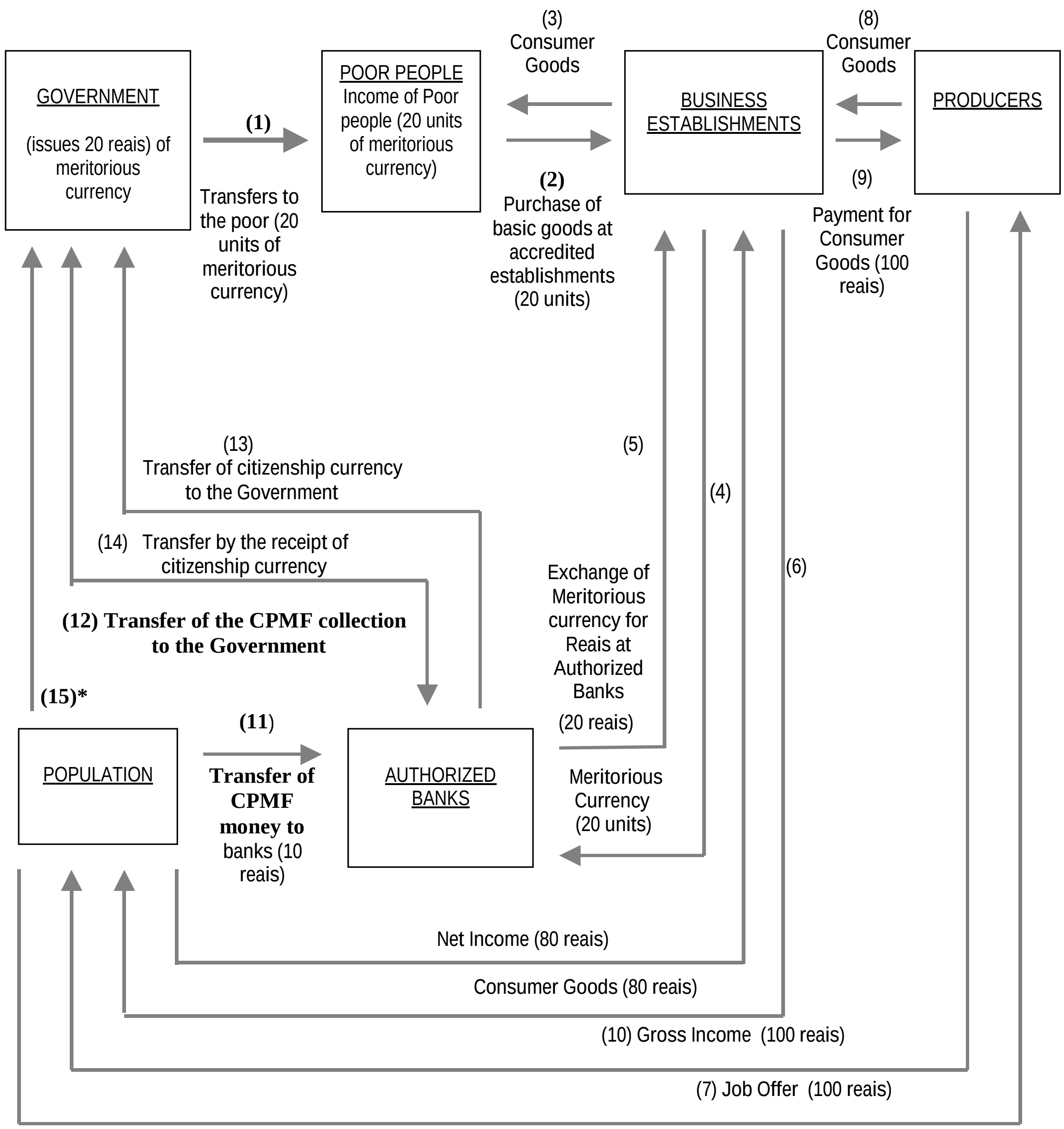
The issuance and circulation of meritorious currency is presented in figure 2. The difference between this and figure 1 is that the poor population is now contemplated with 20 units of meritorious currency, of which 10 units originate from voluntary contributions made by the population (15), which would have its available income reduced. The Government merely manages the currency, for which reason the arrows pass by the Government, but it cannot interfere in the choice of beneficiaries.

Any project that involves the creation of currency is potentially unstable if micro credits do not result in acceptance by the market at the stipulated prices.

In this case, a private fund (to cover non-payments by borrowers) should be set up by the scheme participants. This third scheme should only be deployed when the first is operating and has proven its ability to improves the situation of the poor (a serious problem would be the counterfeiting of citizenship currency).

The proposal presented in figure 2 is based on the transformation of CPMF into a permanent tax to counteract famine, i.e., it assumes the transformation of a tax considered pernicious, with not very noble purposes, for a noble end. Most economists are opposed to CPMF, arguing that it is detrimental to competitiveness.

Figure 2. Issuance and circulation of meritorious currency: expanded project (considering the money collected by CPMF and voluntary contributions on income tax)



Source: Drawn by author.

* The population transfers 10 *reais* to the Government, increasing the guarantee of meritorious currency.

In a recent working paper issued by the Central Bank of Brazil, presents a list of damage caused by the tax to the economy (Albuquerque, 2001).

First, we will examine the negative consequences in order to present a defence for the tax.

To start with, Albuquerque argues that net collection is lower than the 18 billion ***reais*** forecast for 2001.

It is calculated that CPMF collects the equivalent to 1.39 per cent of the Gross Domestic Product, with 0.37 per cent of the GDP corresponding to the interest paid by the government on its debt due to CPMF itself. The remaining 1.02 per cent of the GDP would represent net revenue for the National Treasury.

Estimating the GDP of 2001 at around R$ 1.3 trillion, this means that of the R$18 billion of estimated CPMF collection, approximately R$13.2 billion will be entered as government cash, while R$4.8 billion will eventually return to the economy as excess interest payment by the government, due to the contribution itself.

Second, Albuquerque argues that the impact of CPMF on real interest is instantaneous, and much higher in the case of loans based on fund with a high turnover due to arbitrage with the remuneration of other assets.

Third, the economist affirms that CPMF reduces the stock of capital, production and salaries of the economy, taxes the investment, penalizes specialization, hampers good taxpayers - which pay the contribution on other taxes and are inserted in the formal sector, and increases interest rates and dividends.

To measure the cost of inefficiency of this tax, he uses the “dead weight” concept, which would identify the real economic loss that the country would have to face as a result of the reduction in economic transactions to escape from taxation. Thus CPMF tends to erode on its own basis of incidence.

The loss arising from the dead weight, calculated with a basis on the current rate of 0.38 per cent, corresponds to 25 per cent of the net collection. The economist seeks to question some of the certainties of CPMF defenders. For those that allege that the tax is capable of affecting the informal sector: he believes that it would be more difficult to legally evade a classic tax, seeing that CPMF is levied on the voluntary use of a substitutable service. For those that believe that the contribution proves helpful in inspection, collaborating to increase the collection of other taxes: he counters by affirming that the stimulus to a decrease in banking intermediation would probably contribute to reduce the collection of other taxes.

As one of the defenders of CPMF, I believe that some theories can easily be challenged.

If it is true that it is more difficult to evade a classic tax, why do people with high incomes manage to keep out of the clutches of the tax authorities?

As regards, the decrease in financial intermediation, with a reasonable rate there is no empiric proof of considerable intermediation.

As I understand it, the Government should never abandon a tax that is presenting concrete results in the anti tax evasion movement whatever the theory and economists say to the contrary.

Furthermore, Brazilian economists minimize the fact that a tax should not only be analyzed from the collection perspective but also from the spending perspective.

From the spending perspective the motive is noble: minimize the detrimental effects on a considerable part of the Brazilian population that does not have enough to eat (malnutrition is one of them, with pernicious effects on the learning capacity). And it is this message that when transmitted to the population, will maintain its support of the meritorious currency, since this support appeases hunger.

And in this sense the perspectives are promising: first, due to the volume of financial resources collected (forecast revenue of 18 billion *reais* in 2000). Second, because traditional stabilization plans forced on the population did not eradicate famine. Third, economic literature is increasingly sustaining the issue of income distribution as a primordial condition for economic growth (Basso, Silva and Pinho, 2001). This attitude clashes with traditional attitudes, which argued that the distribution of income would beget conditions detrimental and adverse to growth (Rimmer, 1993; McKinley, 2001).

However, they forget that a tax should be appraised from two perspectives: collection and expenditure.

And the expenditure perspective leads us to believe that expenditures against famine, combined with the enforcement of compulsory education for the children of benefited individuals, would increase the stock of human capital proactively in favour of the improvement of productivity and consequently in favour of increased competitiveness.

If CPMF were discarded, which I consider deplorable, funds to guarantee currency against famine need to be sought in other taxes.

The main objective of the creation of meritorious currency is to eliminate famine, a concern of a social nature. The other economic concern is related to monetary stability. This stability can be analyzed in restricted and broad terms.

In restricted terms when we observe the value of meritorious currency vis-à-vis the Brazilian money. In this sense we can say that as the first programme does not involve currency creation, it is safer and should be deployed first. Only after having proved its efficiency, principally in relation to currency counterfeiting, should be contemplate the other two.

The ample concept of monetary stability involves the ratios between the Brazilian real and the dollar and we will not be analyzing it here.

Since our proposal is not populist as it does not contemplate the creation of currency that is not guaranteed by taxes or by the real growth of the product, it is included in the list of proposals that act in favour of the stability of the real, at least as far as the relation between the real and the meritorious currency is concerned.

4. Conclusion

The income distribution vs. growth controversy is far from being conclusive, and continues with academic debates between the two main theories, the first emphasizing the need to grow first for income distribution to be possible and long lasting and the second emphasizing that some forms of distribution, principally those conditioned to a better education, are benefit to economic growth.

We believe that until one of the issues that generated the debate is resolved, i.e. the existence of famine that persists in some countries of the world, the debate will continue. To glean an understanding of the issue, in the case of Brazil millions of people live below the poverty line (Basso, Silva and Pinho, 2001).

Our proposal is included in the line of those that believe that the stock of human capital is important for determining a country's growth rate and the increase of the stock of human capital can be accumulated utilizing an income redistribution policy coupled with an educational policy for those contemplated with meritorious currency.

The option for basic education does not exempt us from providing an answer to the issue of which form of human capital (basic education versus higher education) produces the best economic growth rates.

Our reply is that the options are not exclusive, i.e., investments in basic education do not impede (preclude) investments in upper education.

Quality basic education can be provided by the State, and upper education can be provided by privately owned institutions in partnership with companies where research would also be motivated and developed.

It is a good idea to keep in mind that persons receiving basic education increase their stock of human capital and can pay for higher education.

As regards the type of efficiency, we must be aware of the fact that our option is for efficiency as conceived and defended by the human development theory and that this is not associated with the generation of higher profit rates.

In relation to the structure of incentives, since we believe that appeasing hunger (giving the fish) without teaching to fish (producing or contributing towards the generation of jobs and companies by means of micro credits) will not resolve the problem faced by the poor, our proposal is included in the list of proposals which judge that a structure of incentives does not always have to be neutral, i.e. programs such as *PROÁLCOOL* should be motivated due to the jobs they generate.

Along the same lines of reasoning, investments in nuclear plants in the northeast, even if they are more expensive, should be contemplated if this contributes to eliminate Brazil's dependency on power purchased overseas and is an important element for the generation of jobs.

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