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The Prospects of Basic Income in Developing Countries

The approval and sanctioning of the Basic Income Bill in Brazil: How it will be implemented

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On January 8, 2004, under the distinguished presence of one of the Founders and Secretary of BIEN, Philippe Van Parijs, at the Palácio do Planalto, in Brasília, President Luiz Inácio Lula da Silva sanctioned the Bill n. 10.835, approved by the Brazilian National Congress last December, that institutes the Citizen's Basic Income. It will be implemented gradually, from 2005 on, under the criterion of the Executive Power, taking into priority first those most in need, until it is extended to all Brazilians living in the country, as well as foreigners living in Brazil for five years or more, no matter their socioeconomic condition.

The Citizen's Basic Income will be a monetary benefit of equal value paid to everyone, annually or monthly. The Executive will define its value, in principle sufficient to attend the minimum expenses of each one with food, education, health, taking into account the level of development of the Nation and the availability of budget resources. When defining the Annual Budget, from the year 2005 on, the Executive will establish the necessary amount of resources for implementing the Program.

It was a very especial day. For the first time in History, the Parliament approved and the President of that Nation sanctioned a law instituting an unconditional basic income to all, even with the characteristic of introducing it gradually, starting with those most in need. In fact it was this feature that made the Brazilian Senate, first – since it was proposed by a Senator – and then the Chamber of Deputies to have it approved, and the Minister of Finance, Antonio Palocci, to recommend President Lula to sanctioned it, since they considered it feasible.

It was a long journey until here. Although it has been approved by a Law, very much has to be done until we introduce a full Citizen's Basic Income to everyone in Brazil.

Because of these facts BIEN have invited President Lula to give the closing speech of this International Conference. It happens that on this same day, the 20th of September, Lula is at the United Nations Assembly, in New York, where he is inviting all the heads of State in the World to debate how are we going to eradicate hunger and absolute poverty on Earth. Therefore he accepted to participate in this X International Conference of BIEN

through a video-recorded closing speech. I am more and more fully convinced that the Basic Income has much to do with Lula's objective.

Today Brazil has a population of around 179 million inhabitants, corresponding to about 45 million families. Of those, there are 11.480.000 families or almost 50 million people living below the Poverty Line considered by the government. In October 2003 President Lula decided to unify four of the several income transfer programs that were in existence, that is the Bolsa Escola, the Bolsa Alimentação, the Gas Help Program and the Cartão Alimentação into the Bolsa Família Program. This is still a means tested program that provides a complement of income to those families with monthly income per capita below R\$ 100.00. If the per capita monthly income is up to R\$ 50.00, the monthly benefit will be of R\$ 50.00 plus R\$ 15.00, 30.00, or 45.00, depending respectively if the family has one, two, three or more children up to 16 years of age. If the per capita family monthly income is in the interval between R\$ 50.00 and R\$ 100.00, the benefit will be of only R\$ 15.00, 30.00 or 45.00 per month, depending respectively if the family has one, two, three or more children up to 16 years of age.

There are some requirements. The family must show that their children from 0 to six years of age must take the vaccines according to the calendar of the Ministry of Health, such as those to prevent poliomyelitis, small pox and others, and that they go periodically to the health posts to check their development. The children from 6 to 15 and 11 months must have an 85% frequency in school.

In October 2003 there were 2.7 million families benefiting from the Bolsa Família Program, that started mostly in the poorest regions of Brazil such as the semi arid regions of the Northeast and in the North. In September 2004, there are more than 5 million families enrolled. The plan is to expand to 6.2 families by next December, and to 11.2 million families or around 46.6 million inhabitants by 2006.

The Executive Secretary of the Ministry of Social Development and Fight against Hunger, Ana Fonseca, last February, mentioned in an interview to the Roda Vida, of TV Cultura, in São Paulo, that the Bolsa Família Program can be seen as the beginning of the Citizen's Basic Income in Brazil. That is, in the first few years, as established in the law, those most in need will get that benefit, which demands some requirements. Then, we will be able to extend the right to receive that modest income to all Brazilian citizens.

How about the requirements? With time we will not have any conditionality. Everyone will receive the basic income as a citizen's right to participate in the wealth of the nation. But aren't those requirements quite positive? Well, we have learnt with the great educators such as Jean Piaget, Maria Montessori, Anísio Teixeira and Paulo Freire is that education is a liberating process through which people becomes more and more conscientious. In the same way that those who are rich normally take all the necessary measures for their children to be vaccinated as well as for them to go to the best schools, we may also expect that all families, once they have the right to the basic income for all their members, will do all efforts for the health and education of their children.

But why pay to the rich and to those that are not in need? Well, they will contribute proportionately more for themselves and for everyone else to receive it. As we have learned from all the accumulated reflection of the members of BIEN, we will then have the following advantages: the elimination of the need to ask anyone how much each person is receiving in the formal or informal market for the purpose of receiving the Basic Income. There wouldn't have any more any stigma or shameful sentiment of any person having to say: I receive only that, that's why I need such a complement of income. Even more important, from the point of view of the dignity and freedom of each person, it will be much better for each one to know before hand that in the next twelve months, and every year from now on, and more and more with the progress of the Nation, that he or she, as well as every member of the family, will have the right to receive that Basic Income.

How much it will be? It will be defined at the discretion of the Executive. Suppose that it starts with a modest value of R\$ 40.00 per month per person. This means that in a family of six, it will amount to R\$ 240.00. If the head of the family is receiving for his work just the present minimum wage in Brazil, of R\$ 260.00 per month, and there is no other income earned from work or other source by the family, then the Basic Income will raise the family's income to R\$ 500.00. In the case of a very successful entrepreneur that receives R\$ 240,000.00 per month, his income will be raised only by R\$ 1.00 in R\$ 1.000.

If Brazil is going to pay R\$ 40.00 per month, or R\$ 480.00 per year per person, to all the 179 million inhabitants, this would amount to R\$ 85.9 billion annually, that is, the equivalent of 5% of a Gross Domestic Product of around R\$ 1.8 trillion predicted for 2004. It would be a huge value, but still less than the value of R\$ 145 billion that the Public Sector of Brazil, taking into account the Union, the States and the Municipalities paid in the form of interest to the owners of both the internal and external public debt last 2003. For 2004, due the measures taken by the Brazilian government, interest to be paid on the public debt is expected to amount to R\$ 121 billion.

Of course, even the modest Basic Income of R\$ 40.00 per month will amount to much more than the amount of the Bolsa Família Program that when it reaches 11.2 million families in 2006, paying an average of R\$ 73.00 monthly per family, will sum up to almost R\$ 10 billion. For this sum the Federal Government has already reserve the necessary funds, but not yet for the Basic Income in the following years.

The Bolsa Família is still a small proportion of all the income transfer programs that exists in Brazil, specially when we take into account the whole social security system, the social assistance system and the worker and employment protection system. In 2002, for example, whereas the Bolsa Escola program, the main predecessor of the Bolsa Família program, amounted to an expenditure of R\$ 1.6 billion, as part of the R\$ 10.2 billion expenditures of the social assistance programs, the social security expenditures amounted to R\$ 123 billion and the worker and employment protection system amounted to R\$ 9.5 billion.

There is one relevant aspect of the Basic Income that we should be aware with respect to what happens with the income transfer programs that occur in other countries and their effects on the international markets. In 2003 the US Government paid to more than 20

million families, or more than 50 million people, US 37 billion in the form of the Earned Income Tax Credit, EITC. For example, a worker that earns the minimum wage of US \$5.20 per hour for 160 hour per month during 12 months gets around US\$ 10,000.00 per year. If he has a wife and two or more children, he has the right to receive US\$ 4,200.00 of EITC, also known for EIC. His family income becomes US\$ 14,200.00.

What is the effect of the EITC? It means that the American Society has decided to pay an extra amount to their workers for them to raise their income closer to the American Poverty Line. It has the effect of making the American companies more competitive with respect to ours if we don't do the same or even better. It is relevant to notice that in his autobiography, *My Life* (Hutchinson, London, 2004), President Bill Clinton has 17 references to the EITC. When he started his first term in 1993, the unemployment rate in the USA was around 7.5%. At the time he decided to more than double the value of the EITC as well as to offer a more modest EITC to working poor without dependents. Also because of the merits of the policies of the Federal Reserve Board and of his president, Alan Greenspan, the fact is that the expansion of the EITC was compatible with the decrease of the unemployment rate to around 3.9% in 2002 at the end of Clinton's second term.

What happen with the economy that competes most closely with that of the USA? In the United Kingdom, where they had the Income Support Program, Prime Minister Tony Blair in 2000 decided to introduce the Family Tax Credit with a similar design and effect. A worker with a family in the UK receiving a modest monthly income of 800 pounds gets around 400 pounds more as a Family Tax Credit.

One should notice that it is in the USA that we may have the best evidence of what could be even better than the EITC. Because in all of the American States there are Federal income transfer programs such as the unemployment insurance, the Food Stamp program, the TANF and the EITC. But only in one State you have the unique and successful experience of the basic income. That happens since 1980 in the State of Alaska where 50% of the royalties coming out from the exploitation of natural resources are destined to the Alaskan Permanent Fund that pertain to all residents of that State as long they are living there for an year or more. The net wealth of this fund evolved from US\$ 1 billion, in 1980, to US\$ 28 billion in 2004. Each year the Alaskan Permanent Fund has been paying an equal dividend to all Alaskans that have varied from around US\$ 300.00 in the early eighties to US\$ 1,107.00 last year.

During the nineties Alaska paid 6% of its GDP to all Alaskans through this system. What was the result? It has made Alaska the most equal of all American States. Whereas in the whole USA from 1989 to 1999 the average family income of the 20% richest families increased by 26%, the average family income of the 20% poorest families increased by 12%. In Alaska, as Professor Scott Goldsmith from the University of Vancouver, Alaska, told us in our IX International Congress of BIEN, in Geneva, the average family income of the 20% poorest increased by 28%, whereas that of the 20% richest increased by 7%.

That is the kind of development that we would like to see in Brazil as in so many other nations so as to have more equity and justice. I am quite convinced that the Citizen's

Basic Income is an instrument of economic policy that should be seriously studied by those countries that are in great need to solve their internal conflicts such as Iraq, Colombia, Venezuela, El Salvador, South Africa, Argentina, Sudan and so many others. I was happy to know when I participated last June in the National Assembly of France that the member of the National Academy of France, Maurice Druon, proposed that Nation to be the pioneer of the Basic Income in the World.

That is why I have proposed last year for Sérgio Vieira de Melo, as soon as he was nominated the Coordinator of the United Nations actions in Iraq for him to study the Alaska dividend system. He told that he found a very good proposal and that he would recommend to the authorities that were then responsible for the administration of that country. Ambassador Paul Bremer III announced this proposal in June 23, 2003 in Jordan in his speech: *Iraq. What are the next Steps?*, in the World Reconciliation Summit. On August 1, 2003, Sérgio Vieira de Melo called me on the telephone that the proposal was being well accepted and that even the World Bank considered it feasible. On the 19th he was assassinated. I hope that the new government of Iraq that it is about to be elected considers it seriously.

Next October, elections for Mayors and for the City Councils are being held in all the 5.561 municipalities of Brazil. In view of the described expansion of the Bolsa Família Program, which is the result of the coordination of the Union, the State and the municipal actions, as well of the approval and sanctioning of the Citizen's Basic Income Bill, I have been proposing that all elected mayors announces as their compromise that they will do their best to gradually institute the Citizen's Basic Income coordinating their efforts with the Union and the State during their next term 2005-2008.

Taking into account the suggestion of Thomas Paine, in *Agrarian Justice* (1795), as well as the experience of Alaska, in 1999, I presented a Piece of Legislation to institute a Brazilian Citizen's Fund that trough time would provide the necessary amount to finance a guaranteed minimum income or a Citizen's Basic Income to all the people in the Nation. The initial capital of the fund would be provided by 10% of the participation of the Union in the capital of public companies, mixed societies, including financial institutions. The resources of the fund would be formed from parts of the Union Budget, 50% of the resources coming from concessions of public services and works; 50% from the revenues coming out of the exploitation of natural resources; 50% from the rents of real state pertaining to the Union, other assets and donations. This piece of legislation is under the process of being voted by the final and conclusive Committee of Economic Affairs of the Brazilian Senate, after being approved in the Justice and Constitutional Committee and the Social Affairs Committee.

I am quite confident that by the years 2006 and 2008 I will be able to tell you during the XI and XII International Congress of BIEN that the Citizen's Basic Income in Brazil is becoming a reality and near to fulfill all our dreams. I want to really thank you all the members of BIEN that have helped me so much with your studies, presence, interest and so much energy for us Brazilians to make this to happen.

What is happening in Brazil follows the recommendations of one of the most distinguished permanent members of BIEN, the 1977 Nobel Prize in Economics, James Edward Meade (1907-1995). In his books about Agathotopia - *Agathotopia: the economics of partnership* (Aberdeen, 1989) - a good place that was built by imperfect people that were able to live with the best institutions and social arrangements so as to attain the objectives of freedom, equality and efficiency, he mentions to we should move firmly but gradually to the right direction. His recommendations were that we should have flexibility of prices and wages so as to have efficiency in the allocation of resources; much interaction between capital and labor in the production process, with labor being remunerated not only by wages but also with participation in the results and, very important, a citizen's basic income. If we were to introduce these institutions from one day to the other we would probably have much disruption. This is was the history of humanity shows. That is why we should move firmly step by step as we are now doing in Brazil. It is my hope that we may even accelerate the path towards our Agathotopia.

In fact, with respect to gradualism, we must also take into account the recommendations of Martin Luther King Jr. during the time of so much unrest in the USA because the black people, in so many parts of the country, could not be at the same schools, buses, restaurants, hotels, restrooms where the whites were, and could not even vote. In his August 28, 1963 most quoted address, before the Lincoln Memorial, I have a Dream, he said:

“This is no time to engage in the luxury of cooling or to take the tranquilizing drug of gradualism. Now is the time to make real the promises of democracy...It would be fatal for the nation to overcome the urgency of the moment... But there is something that I must say to my people who stand on the warm threshold which leads into the palace of justice... Let us not seek to satisfy our thirst for freedom by drinking from the cup of bitterness and hatred... Again and again we must rise to the majestic heights of meeting physical force with soul force.”

Of course we must have in mind that the social problems of Brazil, one of the champions of inequality in the world, are of such order, with so many consequences, for example, in terms of the daily violence and criminality, that we must have the same sense of urgency referred by Martin Luther King Jr. The right path, therefore, is to move gradually, but rapidly, in the right direction of a full Citizen's Basic Income.