FISCAL POLICY, REDISTRIBUTION AND SOCIAL SECURITY[1]

> "This satanic mill set in motion creates the fact: the more rational the enterprises are, the more irrational their consequences within the current social logic."
> [Ricardo Antunes, Professor at UNICAMP, interview in Jornal do Brasil, January 14, 2001].

INTRODUCTION

The present moment is marked by the awareness that the logic of capital accumulation at the current stage of capitalist globalization is aimed at obtaining increasingly higher profits, prioritizing dead work instead of live work, pushing down the remuneration forms of live work to inferior limits of survival. This explains the planetary trend – which has been pointed out by several scholars – of resuming the mechanisms of income and wealth concentration, following the example that has been observed up to the Great Depression of the 1930"s. .

Parallel to the erosion and reduction of labor remuneration, we can still observe in many countries of the world the dismantling of what is known as the Welfare State, characterized by a more or less equitable distribution of the results of economic growth and technical progress, although, managed by an interventionist or social-democratic State, through fiscal policy and social security instruments, without an effective participation of the society.

For this reason, the present moment is one of uncertainty. We are leaving behind a somewhat predictable world, where individuals, families, society, and relations among countries followed a certain pattern. These days, which are favorable to building a new History, require social actions based on reflection, responsibility, and on a holistic view, despite the need to operate with an analytical approach on several aspects of social life. Thus, the issue that concerns us in our Workgroup on a Socioeconomy of Solidarity (WSES), finds numerous interactions with other thematic workshop, although they should be dealt with separately. We consider the central issues of our workshop to be income and wealth redistribution and social security. Fiscal policy is viewed as an instrument to carry out the objectives of redistribution and social protection. Due to our methodological option, initially we will make some comments about fiscal policy, and then analyze the two central themes of the workshop.

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1- THE STATE AND FISCAL POLICY : AN IDEOLOGICAL ISSUE

The fiscal actions of the State, concerning taxes and budgetary expenditures, may be typified in three different kinds of responses, according to the doctrine adopted.

For the Classical, Neoclassical, and New Classics' Economy, the chief duty of the State is to guarantee the order (security), the defense of the nation, provide justice and administration and little more in support of free trade. Those approaches argue that the public budget should be balanced and neutral vis-à-vis the social objectives, coordinated by the market. Its use as an economic policy instrument should be avoided. The neoclassical approach, however, at the turn of the 19^{th}-20^{th} Century, admitted the broadening of State action whenever market failures occurred: monopoly, cartel, unemployment, externalities, etc.. Such intervention would constitute the so-called "**allocating function of the State**". The Social Welfare Economy is an approach derived from the neoclassical and includes, in addition to the allocating function, a "**redistributive function of the State**", aiming at reducing inequalities derived from market failures.

The crisis of the 1930s originated the heterodox response of the British economist John M. Keynes. Since the market was incapable of guaranteeing full employment of productive factors, Keynes demonstrated that the level of income depends not only on the productive capacity, but mainly on the level of effective demand. A recession can be overcome by an increment of effective demand, through an increase in Government purchases. In Keynes'view, the increase in public expenditures should be directed to combat unemployment and to reactivate the private sector, justifying in these instances the occurrence of a budgetary deficit, which may be tackled later on, in the next phase of the cycle, that of economic recovery and growth. Fundamental, in the Keynesian view, is the analysis of the economic activity cycle and the defense of anti-cyclic and compensatory fiscal policies, which would later be known as "**the stabilizing function of the State**".

Finally, the third trend analyzing the State and the fiscal policy is Marxism. In societies ruled by the logic of capital accumulation and class struggle, Marx observed that State apparatuses are submitted to the dominance of capital and of the socially dominant class, the bourgeoisie -

monopolistic owner of the means of production. Under this view, the routes of fiscal policy are always those of interest to reproduce the capitalists' dominance, under the viewpoint of both taxes and public expenditures. However, as the State has a legitimizing function before the social classes that support it, there is a contradictory process which demands the occurrence of social expenditures. Such contradiction leads to a fiscal crisis of the State represented, among others, by the tendency to a fiscal deficit.

2- WEALTH AND INCOME DISTRIBUTION

This is a very controversial field. The World Bank document (IRDB, "Growth is good for the poor.", by David Dollar and Aart Kray) refutes criticisms that globalization increases poverty. According to them, the guarantee of maintenance and increase of the income level depends on the policies defended by the IMF and other multilateral agencies, demanding equilibrium in public expenditures and fiscal austerity. Traditional measures have no effect on the situation of the dispossessed. Trade liberalization would be beneficial to low-income populations.

For others, however, the current globalization, politically hegemonized by the USA. have only helped increase the concentration levels of property and income to such an extent that no social assistance program can generate adequate compensation. Such is the case of the Brazilian program for food staple basket distribution, which, above all, has a humiliating character, as indicated by the writer Frei Betto (Folha de S.Paulo, January 14, 2001): what to do when "the percentage of the total area occupied by the 10% largest rural estates of the country, (...) increased from 77.1 to 78.6%", as occurred in Brazil, between 1992 and 1998? Still using Brazil as an example, it is known that the share of wages in the national income represents only 38%, and 62% relate to capital yields (rents, interests, and profits). Such tendency was equally observed in some countries of the developed world, where the participation of wages dropped, like in the case of France, from 70% to 60%.

All along the 20th century, specially in Western and Northern Europe, fiscal policy was a powerful instrument to refrain and revert the income inequalities trend inherited from liberal capitalism. Progressive and selective taxes, wealth and inheritance taxation, public and free - or highly subsidized - provision of services and goods considered as "meritorious" (health, education and housing) and a social security system based on distribution and universality. Those were the major government instruments employed.

In the field of wealth distribution, measures such as a minimum wage that is capable to meet the needs of the workers and their families, land reform and urban reform, support to urban and rural trade union movements, provided a favorable social environment for the improvement of the living conditions of workers lacking ownership of other means of production than their own work force.

Up to now, there has not been much reason for doubt about the State capability to redistribute income and wealth. The expenditures with public health, education, construction of popular housing, retirement pensions, insurance for the elderly, provision of income for those who are disabled or temporarily disabled to work, and do not own enough income, were some of the objectives materialized in government programs with strong popular support.

The piercing interference of the IMF in public accounts, imposing fiscal adjustment programs disconnected from the needs of the population and aimed exclusively at the financial balance and feasible payment of the public debt (to rentiers), has been pressuring for the reduction of social expenditures.

In the fiscal area, government revenues have been pressured by trends of practically universal character. First of all, there is a growing demand from capital to reduce the tax rates imposing on the income of the rich and millionaires, by reducing progressiveness. Following that, there is a series of measures promoted by large enterprises aiming at obtaining tax exemption over production, unleashing a process of fiscal war among countries and among states or provinces of the same country. These processes can take different forms depending on the country. Reagan promoted a tax reform which aimed at reducing taxes for those who paid large amounts and making more people pay taxes; this example had faithful followers in peripheral countries; but also in central countries there were adhesions to tax cuts, either through threats to withdraw investments, or through explicit competition between their fiscal conditions and work remuneration and those of other countries. The election of George W. Bush had a campaign commitment to reduce taxes in the amount of US$1.6 trillion in ten years.

As to fiscal incentives, they can adopt the form of subsidies, donations, fiscal waiver through tax cut or exemption, in order to promote certain economic sectors such as agriculture, specific activities such as research, or else specific enterprises. They are also used to foster regional development. The problem here consists of a careful evaluation of the effectiveness of those instruments which, many times, involve fiscal expenditures in order to favor activities that would take place anyhow. A second difficulty with the incentives is its distortion. In this case are included the enterprises which disguise their activities in order to fit in the hypotheses of the incentive and do not accomplish their production commitment. For example, Asia Motors imported vehicles from South Korea to Brazil, with a 50% discount in import taxes (customs duties), according to the automotive regime; the requirements related to local production and to export were not complied with, but the company is reluctant to return the fiscal benefits and pay the respective fine.

There are also cases of false qualification as “philanthropic” and “cooperative” types of firms, which want to benefit from fiscal incentives and tax exemption, and, above all, avoid collecting social security contributions which financially sustain the whole social security system.

Fiscal Policy should play the role of giving incentives to production, circulation and consumption and, at the same time, serve as an instrument for income redistribution, or, at least, should not aggravate its bad distribution. It is well-known that indirect taxes levied on production, circulation and consumption end up harming economic activity as they raise its cost. However, it is a lot easier indirectly to collect the tax, since commerce or industry businessmen, immediately responsible for paying the tax, try to transfer their burden to the consumer hiding the tax as if it were another cost of the product or service. This type of tax, equally affecting the income of the rich and the poor, has a regressive character, since the indirect taxes as a proportion of the income of the poor is much greater than in the case of the income of the rich. It is not surprising, therefore, that the neoliberal doctrine in force tends to support tax collection through indirect taxes.

In Brazil, the taxes levied on merchandise circulation (ICMS), industrial production (IPI), foreign trade (import taxes), and services reach 32% of the whole collection, including the contributions for social security. This percentage would certainly increase to something above 40% if we included other taxes and contributions paid by the enterprises and which are surely transferred to the prices. It is the case of income tax on legal entities (corporate income tax, in other countries), of social contribution on the net profit, of contribution on financial transactions (CPMF), etc. Indeed, considering that companies should pay taxes – and they certainly should – the burden of indirect taxes in Brazil is very high.

A survey carried out by the Brazilian Federal Revenue Service tried to measure the incidence of taxation on wages. The results strongly proved what we stated above. Although direct taxes (income and social security contribution) impose some progressive taxation between the lower classes and higher classes (19.14% on the class earning up to two minimum wages and 30.23% on the class earning more than 30 minimum wages), consumption taxes make those values increase to 32.27% for the low-income classes and 37.17% for the upper classes, significantly attenuating the progressiveness of the tax system.

Resistance to a more serious income taxation is so strong that some authorities have insinuated that, in the Brazilian case, we should return to the proportional tax with one single tax rate, for personal income tax, of 10% for earnings above R$ 900,00 (around US$ 450.00). Other taxes, which would have a redistributive focus, such as inheritance tax, rural property tax and tax on large fortunes, would be difficult to manage. In the field of indirect taxes, only consumption should be imposed, thus eliminating taxes on production and on market transactions. This is the neoliberal recipe.

3. SOCIAL SECURITY AND PROTECTION

The strongest controversy nowadays is around the maintenance and/or transformation of social security institutions, with the consequent reduction of the public system of allocation, and enlargement of the private and complementary insurance system. For the national president of CUT in Brazil, João Felício, and for the CUT representative in the Brazilian Social Security Council, Remigio Todeschini, "there is a growing interference by the IMF and the World Bank in the destiny of our social security system" (Folha de São Paulo, Dec. 27, 2000).

Neoliberal advocates of private pension funds used arguments of a financial nature (the structural deficit of allocation systems, due to changes in the labor market and the increase in life expectancy) and strategic nature (leverage for economic growth). In Brazil, according to the Minister of Social Security, "the complementary insurance financed by private companies is almost non-existent (...). (However) the approval by the National Congress of three regulating projects (for this system) will be a fundamental milestone to provide support for the sustainable development of the Brazilian economy." (Folha de S.Paulo, Jan. 14, 2001).

What is at stake is:

* abandonment of the collective well-being rationale, of the inter-generational solidarity allocation system, in favor of individualistic and exclusive rules based on a profitable individual insurance;
* replacement of State institutions – and, therefore, public and subject to democratic participation -, with market mechanisms, supposedly impersonal, but in fact controlled by the holders global financial power;

* replacement of a system which, despite being defficient, provides the expectation of security in old age and in moments of inactivity, with a model dominated by uncertainty about benefits, therefore contributing to the subordination of individuals to the market and to capital;
* dissolution of citizenship and social rights, totally or partially canceled on behalf of property individualism;

The proposed system of individual insurance, managed by private or privatized pension funds, for the purpose of retirement, is a highly perverse model that produces income concentration. First of all, there will be no universal access to this system, because the only people who can take part in it are those capable of regularly maintaining financial savings. Depending on the level of per capita income and on the income and wealth concentration index, in most countries, only a small part of the population will be able to adjust to the new rules and establish an individual insurance.

If there is consensus on the above issues, one central concern of our workshop should be how to defend ourselves from such perverse perspectives, so contrary to the ideals of equality, brother/sisterhood and solidarity which move us. How to avoid that the destructive winds of neoliberalism end up shattering institutions which are expressions of social cohesion and of a minimal level of equality? The democratic system in most peripheral countries has demonstrated its incapacity to confront this wave of cruelty against the dignity of human beings. In the field of the economy of those countries decision-making has been centralized and authoritarian, by means of measures originated exclusively in the Executive Branch, which per se is a hostage to financial capital and international financial institutions..

4. OTHER RELEVANT ISSUES

Income redistribution and social protection -- two faces of capitalism which became increasingly civilized along the 20th Century -- , are deeply jeopardized by the return of liberal policies and by the endless appetite of the financial capital, the true subject of economic and political decision-making processes at the turn of the century. Those are fields of unyielding conflicts at the national and international levels. And they are connected to almost all social practices. This is why it is difficult to debate and analyze these two issues, as we tried to do in the paragraphs above.

Along the workshop debate and meetings, several other issues should deserve our concern and reflection.

First, the significance and feasibility of the **Tobin tax**, aiming at the taxation of foreign exchange operations and restrictions on speculative capital flows. The Fabius Report sent to the Finance Commission of the French Assembly, on August 21, 2000, considered it “a generous but unfeasible idea”. According to the French government, international consensus would be necessary so as not to paralyze the exchange operations in one only country. In addition, the European law would be contrary to the decision of one individual country, which did not prevent the Report from advocating regulated financial liberalization, the combat against financial speculation, a favorable position towards regional monetary cooperation in the three major monetary regions, and the reinforcement of the IMF role.

A second important issue, and a very broad one, refers to the **fiscal war** of **fiscal incentives** between countries and among regions of the same country. In Brazil, there is a regional concentration of those benefits, favoring the richer regions (44% in São Paulo, and 66,7% in the Southeast region) and various forms of reduction or postponement of tax payment depict the phenomenon of *fiscal dumping*.

Still in this field of relations between federated entities is sharing of the Tax on the Circulation of Merchandise and Services (ICMS) between the origin and the destination. The ICMS is a value-added tax and, in the transactions between states, the tax revenue is shared by the origin, which gets a part of that tax, and the destination, which gets the other part. As the tax rates may differ among states, some enterprises decide to settle in one state or another according to their interests and also carry out fictitious sales to other states, in order to pay less taxes. This is yet another ingredient of fiscal war.

Fiscal issues between sovereign states, which occur in the context of customs or economic unions, include some similar as well as different aspects from those of the fiscal federalism. In customs unions the formal commitment is limited to the common external tariffs. However, numerous conflicts arise, based on internal taxation which is sometimes more benevolent and other times more discriminatory, giving place to reciprocal accusations. Within Mercosur there is a common external tariff that accepts a certain number of exceptions for each member-country, allowing them freely to impose the tax rates. The main conflicts happen around the so-called automotive regime which allows the concession of fiscal incentives on internal taxes; member countries thus compete to attract auto companies by means of fiscal cuts.

It is important to stress the need for coordination of fiscal policies and even more general economic policies, such as monetary, foreign exchange, and social security, in the consolidation of those customs alliances.

Some words must be said about the FTAA, the association which will establish free-trade among all countries of the Americas, except Cuba. There is an evident pressure from the US to accelerate the establishment of this agreement, anticipating it to 2003, whereas Brazil and a few other countries would prefer the date already set up of 2005. The analysis of this agreement is a complex task. It has to do, after all, with allowing the strongest economy in the world freely to circulate its merchandise, competing with the somewhat incipient, not much structured or integrated industrial economies. Nobody thinks, as a counterpart, of liberating worker migration. There is no doubt about what can happen in terms of the dismantling of incipient local industries, their acquisition by stronger groups with greater power in the market, the dismissal of large contingents of workers and the consequences it may bring in terms of foreign exchange and monetary policies, but specially the socio-cultural demolition and the social marginalization. Therefore, this integration should be reflected upon and assessed in terms of the benefits it can bring and the costs that will certainly be imposed, refusing any deterministic assumption that there is no other alternative. Alternatives always exist.

As to the issue of **North/South relations**, we ask whether it would be possible to create institutions and procedures for the purpose of implementing income and wealth redistribution among countries in order to reduce the inequalities among them.

The so-called **fiscal havens** are a general concern of all governments. We ask whether it is feasible to establish international agreements that may be respected by all countries.

FISCAL ADJUSTMENT, as a conclusion

The most serious fiscal issue, however, is the following. At Christmas Eve, 2000, the big media in Brazil announced in their headlines that the country had overcome the fiscal surplus target agreed with the IMF. The news said Brazil had obtained the primary surplus of R$ 41.5 billion, which exceeded in R$ 4.8 billion the established goal of R$ 36.72 billion agreed with the IMF (O Estado de São Paulo, Dec. 23, 2000).

The concept of primary surplus is revealing. It concerns the difference between the revenues and the expenditures, *excluding* the revenues and expenditures with interests, therefore corresponding to the amount available for the debt service. That is why this is one of the main indicators monitored by the IMF in its assistance programs. When, as the main objective, privilege is given to obtaining a surplus for debt payment, the whole logic of public finances and State actions is altered. The objectives and ends of State actions become *the rest*, which will be carried out only if resources exist after serving the debt. There is, therefore, an inversion, the means replace the ends, and the debt which is a means to accomplish objectives, becomes the end of public finance and, as a matter of fact, of the very actions of the State. Similar mechanisms have been introduced in other Southern Hemisphere countries, moreover in the so-called emerging economies. Even if specific procedures change forms from country to country, the objectives are identical: *to submit the country to the priority of foreign payments and to strangle its sovereignty in terms of economic policy.*

All Economic Policy today is oriented towards this end. Interest rates have to be raised in order to attract national and foreign investors and make it possible to renegotiate the debt. The rest of the news were also revealing. It stated that the government would liberate funds for the ministries to spend beyond the fixed limits, which means that there were programs and projects in these ministries which were being restricted due to the obligation to generate the primary surplus. In fact, this is a practice carried out daily by the Treasury Secretariat of the Finance Ministry in Brazil: emergency allocation of funds, regardless of the existing priority for its use. Scientific research is cancelled after it starts, the distribution of food staple baskets for the victims of draughts in the Northeast is suspended, students who get scholarships see their value reduced. Planned budgetary expenses are done with always smaller portions of funds, administrative bodies suffer so much from such scarcity of funds that they begin to lack the most elementary items, such as resources to pay energy and telephone bills. Public servants and retired people are then elected as escape goats and made responsible for the chaotic situation. Those are dramatic examples, and for this reason they reach visibility in the press. However, the daily practice of this financial philosophy leads to the dismantling of public administration in addition to an inefficient and incompetent State.