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From the Family Scholarship Program towards the Citizen's Basic Income in Brazil

Senator Eduardo Matarazzo Suplicy¹

My first participation in the BIEN International Conference was in 1994, in London, UK. BIEN, founded in 1986, was the Basic Income European Network. I was still in the process of learning why an unconditional basic income could be even more rational and efficient than an income transfer program, for example in the form of a negative income tax, for the purpose of eradicating absolute poverty and promote justice in a nation. In that V Congress homage was paid to Professor James Edward Meade, the Nobel Prize winner of 1977 who was ill and represented by his daughter, Bridget Dommen. He died in 1995 after completing his last book on the characteristics of Agathotopia, a good place for imperfect people to live in. James Edward Meade had made a very important contribution for the struggle of a basic income since the early thirties when he was a member of the Cambridge Circle with John Maynard Keynes, Joan Robinson, Richard Khan, Piero Sraffa, Austin Robinson and others. Born in 1907, already at 28, in 1935, Meade wrote *An Outline of Economic Policy for the Labor Government* where he had already forwarded some of the ideas that later in his life he wrote in a more complete form in *Agathotopia (1989)*, *Liberty, Equality and Efficiency. Apologia pro Agathotopia Mea (1993)*, and *Full Employment Regained? An Agathotopian Dream (1995)*.

John Maynard Keynes, in 1930, in *Economic Possibilities of our Grandchildren* had envision that by 2030, if humanity where to avoid wars, willing to listen to the knowledge of the scientists and able to better plan the size of our families, we would be able to guarantee the survival of everyone in society. In 1991, after interacting with Professor Antonio Maria da Silveira, an enthusiast of the idea, I had presented in the Brazilian Senate a project that instituted a Guaranteed Minimum Income for all adults with 25 years or more with monthly income below US\$ 150. They would have the right to receive a negative income tax that, taking into account the availability of resources,

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could vary from 30% to 50% of the difference between US\$ 150.00 and their level of income. It had been approved by the Senate and it had received a favorable report in the Finance Committee of the Chamber of Deputies.

It was in that V Congress that I met personally and better so many of you members of BIEN like Philippe Van Parijs, Guy Standing, Clauss Offe, Rubén Lo Vuolo that later visited Brazil and contributed first for the decision in Brazil to start local and regional experiences, in Campinas, the Federal District and tens of municipalities, of Guaranteed Minimum Income Programs related to Educational Opportunities, such as the Bolsa Escola Programs that later became Federal Programs and were transformed into the Bolsa Família Program. In 1996, I accompanied Van Parijs audience with President Fernando Henrique Cardoso, his Minister of Education, Paulo Renato de Souza and staff, when Van Parijs observed that it would be a good step to start a guaranteed income program relating it to educational opportunities with the perspective of one day reaching the unconditional basic income. That dialogue encouraged the government to support the approval of Law 9.533/97 that allowed the Union to finance 50% of the costs of municipalities that initiated guaranteed minimum income programs related to educational opportunities, starting with the poorest regions. In 2001, President Fernando Henrique Cardoso enacted a new Provisional Measure, briefly approved as Law 10.219/2001 through which the Union would support the full costs of all municipalities that initiated Minimum Income Programs related to education or Bolsa Escola Programs.

In December 2001, I decided to present a new Project of Law to institute an unconditionally Citizen's Basic Income from 2005 on. The senator that was designed to report, Francelino Pereira (PFL/MG), after studying the matter, concluded to be a nice idea, but he had the proposal to be instituted step by step, under the Executive criteria, starting with those most in need, to become compatible with the Law of Fiscal Responsibility: to every expense you need to show the necessary revenue in the budget.

I reminded of James Meade recommendations. In order to have a good place where we may have freedom, in the sense of everyone being able to work in what the person feels it is according to his vocation, and being able to spent his reward in whatever is his will; equality, in the sense of not having great disparities of income and wealth; and efficiency, in the sense of attaining the highest level of living compatible with the available resources and technology, we should have the following arrangements and institutions:

Flexibility of prices and wages, so as to have the best allocation of resources; much interaction between entrepreneurs and workers, labor being paid not only by wages, but also by labor-quota partnerships; and a social dividend or a basic income so as to guarantee that everyone would have the right to receive what is needed for his survival if for any reason, with the flexibility of wages and eventual bad results for the firms, the remuneration of some people became too low. Important, in the last chapter of *Agathotopia* he mentions:

History suggests that the immediate uncompromising forcing of major changes on this scale against fiercely held opposition inevitably leads to unforeseen disastrous results. Situations of traumatic change may arise for other reasons...This means that the transition to Agathotopian arrangements is going to take a long time (...) A Social Dividend can be financed out of the abolition of existing personal allowances under the income of tax rates supplemented at some stage with an element of special levy on the first slice of income. If the journey is taken at a gentle pace, one can hope ultimately to reach Agathotopian conditions without too much strain on the way.

The Brazilian Senate, because of that paragraph saying that the Citizen's Basic Income would be instituted gradually, approved unanimously that Law in December 2002, and the Chamber of Deputies, in December 2003, without much resistance. When the Law came to the examination of President Luiz Inácio Lula da Silva to sanction or not, the Minister of Finance, Antonio Palocci told him: "Since it is to be instituted gradually, under the Executive criteria, it is feasible and you may sanction it". So he did sanction the Law on January 8, 2004.

I agree with Professor Philippe Van Parijs, from Louvain Catholic University and Harvard University, when he says that two of the greatest improvements in humanity during the nineteenth and twentieth centuries were, respectively, the abolishment of slavery and the adoption of universal suffrage, and that in the twenty-first century it will be the Citizen's Basic Income - CBI.

In order to insure that people have access to good education and to increase their quality of life, to preserve and improve the environment where we live, to elevate the sense of solidarity and justice, to reduce assaults, robberies, murders and violent crime, to eradicate absolute poverty and to provide true freedom and dignity for everybody, it is fundamental to establish the Citizen's Basic Income, which is everyone's right – regardless of origin, race, sex, age, civil or economic condition – to receive an income, which meets his/her vital needs as a right to participate in the wealth of the nation.

It is for this reason that I am very happy that Editora L&PM decided to launch the 3rd edition of my book *Renda Básica de Cidadania: A Resposta dada pelo Vento (Citizen's Basic Income: The Answer is Blowin' in the Wind)* and that the Corporación Andina de Fomento, CAF, as suggested by its President Enrique García Rodríguez, and its director in Brazil, Moira Paz Estensoro, in collaboration with the Federal Senate of Brazil, decided to also publish an edition in Spanish that just came out. I am also glad that Cortez Editora and Editora Perseu Abramo have just asked me to write the V Edition preface of my more complete 2002 book *Renda de Cidadania. A Saída é pela Porta. (Citizenship's Income. The Exit is through the Door)*

There has been an increase in interest in the proposal of the Citizen's Basic Income. Evidence of this can be seen in the large number of works and contributions from professors, government authorities, members of parliament and researchers from the five continents represented in the *BIEN - Basic Income Earth Network Congresses*.

Brazil is the first nation in the world where the National Congress has approved a Law, nº. 10.835/04, of January 8th, 2004, sanctioned by President Luiz Inácio Lula da Silva - which establishes the Citizen's Basic Income, step by step, giving priority to those most in need, until the day when everyone will receive it. The Bolsa Familia Program may be seen as an important step towards the implementation of the CBI.

Since the approval of the Law that creates the Bolsa Família Program, in 2003, there have been adjustments in the amounts paid out by the program and an increase in the number of families which have benefited. In May 2008, every family in Brazil with a per capita income below R\$ 120.00 per month has the right to receive a supplement of R\$ 18.00, R\$ 36.00 or R\$ 54.00 per month depending whether the family has respectively one, two, three or more children up to 16 years old; plus R\$ 58.00 per month if the per capita family income is below R\$ 60.00, plus R\$ 30.00 per adolescent of 16 or 17 years old, up to a maximum of two. Therefore the Bolsa Familia payments range from R\$ 18.00 to R\$ 172.00 per month.² The Minister of Social Development and Fight against Hunger, Patrus Ananias, has just announced that by July, there will be a 10% increase in those values because of the increase of the cost of living, especially for people with low income, in the past 12 months. The last adjustment in those values was in July 2007.

To receive this benefit, the family must prove that their children up to six years of age have received, and are still receiving, all vaccinations in accordance with the Ministry of Health Calendar; that their children from 7 to 15 years and 11 months old, as well as adolescents of 16 and 17 are attending at least 85% of classes in school, and that pregnant mothers are having regular ante-natal examinations. In addition to this, parents are encouraged to take literacy or work training courses.

Today, about 11.1 million families are benefiting from the Bolsa Família programme. If we take an average of 4 people per family, around 44.4 million people are enrolled in the programme, which represents almost a quarter of the 187 million population in Brazil. Since its commencement in 2003, the scheme has evolved rapidly. The number of benefited families increased from 3.5 million in December 2003, to 6.5 million in December 2004, to 8.5 million in December 2005 and to 11.1 million in December 2006 - a number that remains approximately the same today and that corresponds to around 85% of the 13 million families with income below the threshold of R\$ 120.00 per month.

² On May 2, 2008, one American dollar was worth R\$ 1.64, one euro was worth R\$ 2.54, and one Argentinean peso was worth R\$ 0.52.

Last May 31, I had a meeting with about 100 families in one of the most poor and large regions of São Paulo, in the Jardim São Paulo that is part of Guaianases, in the far east zone of this 11.300.000 inhabitants city, the largest in Brazil. The purpose of the meeting was to explain their rights about the income transfer social programs that exist in São Paulo and Brazil as well about the perspective of a Citizen's Basic Income. First I could notice that not one of the parents that were present, the majority of them mothers accompanied by children, knew how to explain the definition of the Bolsa Família Program, or of the Municipal Minimum Income Program related to Education, that it is more generous, or of the State of São Paulo Citizen Income Program (that it is means-tested).

In fact, the municipality has seven different income transfer programs, what makes even more difficult for the people to know their details. A few mothers, about fifteen, were enrolled in some of the programs. Most of them had a family income per capita under the threshold of R\$ 175.00 per month that is required by the municipal Minimum Income program. But they had much trouble in enrolling in a program so as to have the right to the benefit. In recent years the municipality regional office inform them that they should wait for the social assistant to visit their homes to see to what extent they meet the law requirements. I decided to call the Municipal Secretary of Social Programs to ask better information to explain to those families. In the second part of the meeting I explained to them how an unconditional Citizen's Basic Income would function. They all agreed that it would have so many advantages for all of them to understand and that it would be so more rational.

If there are so many problems for poor families to understand exactly which those are that have the right to such programs and also to get enrolled in it even in the most developed city of Brazil, one can imagine that in the less developed regions the situation is even more difficult.

The Minister of Social Development, Patrus Ananias, informed me that the Ministry made an agreement with the Brazilian Army, to find approximately three million Brazilians that possibly do not have Identification Cards, living in absolute poverty and still do not benefit from this scheme.

In 2007, the Brazilian Government spent R\$ 7.5 billion on the Bolsa Família Program. For 2008, with the adjustments in the benefit values, the Federal Government Budget estimates expenditure of around R\$ 11 billion, *i.e.* 0.4% of GDP. There is a consensus among analysts that the Bolsa Família Program, together with the other initiatives, has contributed to diminishing the Gini Coefficient of Inequality in Brazil from 0.5940 in 2001 to 0.5886 in 2002, and to 0.5620 in 2006. The proportion of people living below the total poverty line has diminished from 26.72% in 2002 to 19.31% in 2006.

The progress achieved is analysed in detail, for example, in the works of the Centro de Políticas Sociais – CPS of the Instituto Brasileiro de Economia, from Fundação Getúlio Vargas, coordinated by Marcelo Cortes Neri, *Miséria, Desigualdade e Políticas de Rendas: O Real do Lula* (September, 2007); and

also in the book Instituto de Pesquisa Econômica Aplicada (IPEA), *Desigualdade de Renda no Brasil: uma Análise da Queda Recente* (2007), in which researchers Samir Cury, Ricardo Paes de Barros, Miguel Nathan Foguel, Gabriel Ulyssea, amongst others, emphasized that the income transfer programmes, such as Bolsa Família, have significantly improved with signs of a reduction of inequality.

In the past two decades I have visited nearly all the states in Brazil, and have traveled to many different countries including Argentina, Austria, Bolivia, Chile, Colombia, Finland, Denmark, Norway, Sweden, Italy, Peru, Venezuela, Panama, Dominican Republic, Haiti, México, United States, France, England, Spain, Germany, Belgium, China, Bangladesh, South Korea, Mozambique, South Africa, Sri Lanka, Iraq and now Ireland, highlighting reasons why the Citizen's Basic Income could be an efficient way of reducing hunger and eradicating poverty.

On almost all audiences, in dialogs with most different segments, people in general accepted the idea that Citizen's Basic Income is a positive and feasible proposal.

Why is the CBI such a good proposal?

First, it is the counterpart of the commonsense perception that all citizens should have the right to participate in the wealth of the nation. There are so many ways to reach such conclusion. Thomas Paine explained it so well in "Agrarian Justice", in 1795. Let us think of another simple example. People from all over the world come to Rio de Janeiro to know one of the most beautiful cities in the world. It is clear that all its inhabitants, if not all Brazilians, should have a part in the wealth that it is generated by the intense tourist movement that occurs in that city as well as in all other places of interest in Brazil, starting from the Amazon Forest. It is also common sense that all Brazilians should have the right to benefit from the royalties that results from the exploitation of natural resources of our nation.

Second, it is the way to finish all the bureaucracy that it is required by the means-tested programs that requires so many counterparts.

Third, it also ends the dependence phenomena that happen when you have a program that says: if you don't earn that amount, you will be able to receive a complement of income. Then if the person has an job offer that will pay something like that and he or she perceives that he or she will lost what the program was paying, then the person may not accept the activity and will enter in the poverty or unemployment trap. If everybody starts from the CBI, any productive activity will mean progress, and the incentive is there.

Fourth, and most important, from the point of view of dignity and real freedom for all, there is no doubt that a CBI will provide to each person the possibility to say no to any eventual and unique activity offer that may be humiliating, or that may put his/her health or life in risk. The person may say no and wait for another job opportunity that is keener to his or her vocation.

But wouldn't you stimulate idleness if you are going to pay a CBI even to those who don't like to work? How about those that have a strong tendency to be a vagabond? In fact, we know that we all humans love so much to do so many things, and we know that we must do so many activities because they are necessary, even without any remuneration in the market. For example, the mothers when they are nourishing their babies; or we fathers and mothers when we are taking care of our children, feeding them, educating them and so on; or when our parents are older and in need of our assistance; there are also so many activities that we do voluntarily in our neighborhood, in the churches, in the students unions, in the ONG's and so on. When Vincent Van Gogh and Amadeus Modigliani painted their works they tried to sell them for a good price but were not successful. Both of them became ill and died relatively young and today their paintings are sold for millions of dollars.

The constitution and laws of most countries, including of Brazil and Ireland, recognizes the right to private property. This means that a person that has the property of land, factories, banks, restaurants, hotels, stores, real state or financial titles may receive profits, rents or interest as a return from his or her capital. Does the constitution or laws of our nations say that this person has to necessarily work or show that their children are going to school in order to receive the income from capital? No. So if we agree that the rich may receive their income from capital, why don't we agree that everybody, rich or poor should have the right to receive a CBI? A modest one to start with, but that with time will be enough for the basic needs of each one?

Of course it will cost a very significant amount. But once we understand all the advantages of the CBI for society, how it will give a higher sense of solidarity and justice for all, how this may have very beneficial effects even to diminish violent crime and other problems, It is my strong believe that most of the people will agree to build a fund from all different kinds of wealth created in each society so as to be able to make it feasible.

Of course, it is natural for people to ask why we are going to receive a basic income for those like us that are able to participate at the BIEN Congress, if we don't need it for our survival. Why should we spend so much to pay everyone? Well, those who have more will pay more for everyone else to have it

We from the developing nations should also be aware of the nature of all income transfer programs that exist in the developed world and they make their economies more competitive if we don't' do the same or even better. For example, the Earned Income Tax Transfer in the USA pays to the worker who receives US\$ 10,000.00 per year, if he has a wife and two or more children, a complement of US\$ 4,000.00, or 40%. In the U.K., The Family Tax Credit pays 50% more to a worker that receives £ 800.00, so that he gets £ 1,200.00 per month. It is the society that contributes for the worker to be more satisfied and productive to the competitive advantage of the firm with respect to firms in

Brazil and other nations. It is my firm belief that the CBI will produce the similar effects but with all the other above advantages.

I have also spoken about these arguments in Baghdad, Iraq, in January 2008, when I visited the Speaker of the Iraq Council of Representatives, Mahmmoud Al-Mashhadani, the former Prime Minister and Leader of the Coalition Government. Ibrahim Al-Jaafari, the Minister of Planning, Ali Ghalib Baban, the President of the Prime Minister's Consulting Council, Thamir A. Ghadhban, and other Ministers, as well as several members of the Parliament, to show how the Citizen's Basic Income should be an effective tool capable of promoting the democratization and pacification of that country. The report of this journey can be found in my text *Uma Renda Básica para Democratizar e Pacificar o Iraque* and in the video, both available on my website: www.senado.gov.br/eduardosuplicy.

Last January, 29, I had the opportunity to explain to the Peace Nobel Prize Winner, President José Ramos Horta of East Timor, when he was visiting Brazil, that the Citizen's Basic Income could be quite relevant to his nation. After telling him about my trip to Iraq as well as of Alaska, he said that it was fascinating and invited me to explain the proposal in his country. Next week, on my way to Dublin, I will travel to Dili. On June 16-18, I will be explaining to the members of the Cabinet of Prime Minister Xanana Gusmão, to the National Parliament as well as to professors and students of the University of East Timor how they may, even being a young and poor nation, but already with a monthly revenue of US\$ 100 million, start to think about the creation of a fund to pay a basic income to all their 1.1 million inhabitants.

Even after the sanction of the law that gradually institutes the Citizen's Basic Income in Brazil, there are still a lot of people who are not yet convinced that it is the best tool for the eradication of poverty and the promotion of true freedom for all. One example is the study by FGV, coordinated by Professor Marcelo Cortes Neri, mentioned above, which defended ways of improving the quality of the Bolsa Família Program, "creating exit doors for the programme, either by the reduction of poverty, or by improving the enrolment process in the scheme, replacing less or not poor beneficiaries, giving priority to those beneficiaries in extreme conditions of poverty, who are currently excluded from the programme". The study claims that "the Bolsa Família is focused on payments to families with children and adolescents conditional upon primary school attendance, vaccination and ante-natal examination (...) it also takes into consideration the extreme levels of deprivation, as well as the expected results of education initiatives", whereas "the counterpart of the school frequency represents, in thesis, a direct subsidy to education in the same way as other schemes, such as the school lunch and educational books."

It is important to note that the objectives for the improvement of the Bolsa Família Program, including all aspects related to health and education, are consistent with the idea that one day we will implement the Citizen's Basic Income in our country. When it exists, people will be aware of the importance of good education and healthcare needs.

Marcelo C. Neri wrote in that study: “an alternative that should be avoided is the universality of income payments, according to which each Brazilian, including the rich ones, should have the right to a minimum income.” He was concerned about the high volume of the resources necessary to finance the Citizen’s Basic Income. His opinion is highly regarded, in that he is one of the greatest authorities in the study of inequality and poverty eradication in Brazil.

The 2006 Nobel Prize in Economics, Edmund Phelps, last May 26, gave a conference in Rio de Janeiro where he praised the positive results of the Bolsa-Família Program. Similar to Marcelo Nery, he emphasized that he does not recommend the payment of an unconditional basic capital or income to all inhabitants. Phelps says:

Well-accepted notions of economic justice imply that *economic inclusion* is also necessary for a good economy. When, in the early 1990s, I began urging government measures to increase inclusion, my argument was Adam Smith’s point that you will be more effective in trying to raise a person’s income if enlist his self-help alongside your contribution rather than simply to throw money at him unconditionally, which would probably diminish his motivation to earn additional income.

With my greatest respect, I invite them, nevertheless, to examine all the arguments in favor of the universality of Citizen’s Basic Income as well as the effects of the successful pioneer experience in Alaska.

In 1976 the population in Alaska was asked about the creation of a fund belonging to all. The overwhelming majority voted, by two to one, in favor of the project. Professor Scott Goldsmith, from the University of Alaska, in Anchorage, affirmed that today it is political suicide for any leadership in the State to propose the end of the dividend system provided by the Alaska Permanent Fund, which has made Alaska the most equal of the 50 North-American States. In his 2002 paper to our X BIEN Congress he shows that during 1989-1999, while the average annual income of the 20% richest families in the US grew 26%, that of the 20% poorest grew 12%; whereas in Alaska the respective results were 7% and 28%.

On the following day of Edmond Phelps lecture in Brazil, I had a 12 minute conversation with him on the telephone and mentioned those results. He was not convinced yet. I decided to write to Professor Scott Goldsmith to gather some more evidence because of doubts that I had on the evolution of the economy of Alaska. Although being quite positive with respect to the acceptance of the Alaska Permanent Fund dividend system his answer, attached to this paper, is not entirely conclusive.

Now in 2008, when municipal elections will be held in Brazil, it should be an excellent opportunity for all candidates running for Mayor or the Council to seriously consider the possibility of establishing as an objective, in association with the Federal Government through the Ministry of Social Development and

Combat Against Hunger, as well with the Governors of the States, the gradual transition of the Bolsa Familia Program to the Citizen's Basic Income. I am trying to stimulate the mayor candidates not only of my Worker's Party but from all parties to make their cities a pioneer example of a CBI, reminding that the first guaranteed minimum income programs related to education started in municipalities.

Also this year we will examine a new Taxation Reform proposal and eventually look at the social security reforms. It should be opportune to examine the means of making the referred transition. We will also be able to analyze the Bill of Law which creates the Fundo Brasil de Cidadania (Citizen's Brazil Fund), already approved by the Senate and being legally processed at the Chamber of Deputies, which is based in part on the common wealth of the natural resources as well as other sources, creating a way to finance the Citizen's Basic Income.

It is propitious to know that in Otjivero, Omitaro, a village at 100 km on the east side of the Capital of Namibia, Windhoek, approximately 1000 inhabitants of that rural settlement started to receive a monthly income of 100 Namibian dollars, equivalent to US\$ 12.50 in January 2008. The trial will last at least two years. Every six months there will be a careful assessment of its effects on the community. The initiative is under the responsibility of the Namibian Basic Income Grant Coalition, formed by several religious groups, unions and civil organizations, who have raised a special fund for this scheme.

In Brazil, Recivitas - Instituto pela Revitalização da Cidadania, proposed the first steps to create the Citizen's Permanent Fund in the village of Paranapiacaba, in the district of Santo André. It is a village protected by the National Historic State Property, located at Serra do Mar, with 1,400 inhabitants. The objective is to create a Basic Income for the population of the village. As I witnessed in a meeting held with more than 450 people of Paranapiacaba, in April 2008, at Clube União Lira Serrano, it was agreed amongst all of them that the experience would be a positive one if they could implement it. Next July 11, Recivitas will organize a meeting at a Hotel in São Paulo with the directors of firms that located around Paranapiacaba inviting them to make a voluntary periodic donation for the Permanent Fund of Paranapiacaba that will finance the Citizen's Basic Income.

When I visited Beijing, in January 2007, Professor Tian Xiaobao, President of the Academy of Labour and Social Security, I had access to information regarding the present programs in the Popular Republic of China. If a family of three – father, mother and child – does not earn at least 390 *yuan*s per month *per capita*, about US\$ 50, thus US\$ 150 per month for three people, the family has the right to receive a supplement to reach that level. I told them about the present programs in Brazil, such as Bolsa Família, and the perspective, already approved by law, to introduce gradually the Citizen's Basic Income for all. After having explained to Professor Tao, regarded as the best Chinese economist in the labour area all the advantages of CBI, I asked

him whether it was possible to institute this right for more than 1.32 billion Chinese people.

He answered that he considered CBI a rational proposal, good sense, coherent with the objectives of a harmonious society, as defended by Confucius (551-479 b.c.). It has also to do with the present goals of the Chinese government. But it is necessary, he said, for a preparation period during the next five years plans. Therefore, the Citizen's Basic Income scheme will be possible and desirable in 2020. I felt encouraged when I thought that for a society with 5000 years of history, 2020 is just the day after tomorrow.

In April 2007, when President Horst Köeller, from the Federal Republic of Germany, visited the Brazilian Senate, he introduced me to Professor Götz W. Werner, from his delegation, who had just published the book *Einkommen für Alle (An Income for All)* Kiepenheuer & Witsch (2007), which turned out to be a best-seller in his country.

Professor Werner is an entrepreneur and the owner of the main chain of pharmacies, DM Drogerie Markt, in Germany, with 900 shops all over the country and another 300 in the neighbouring countries and he adopted enthusiastically the Unconditional Basic Income. At that time, he invited me to participate in two big conferences in Berlin, on 4th and 5th June, 2007, together with the winner of the Nobel Prize of Peace and the creator of the Grameen Bank, Muhammad Yunus, on the occasion of the Vision Prize, at the University of Karlsruhe, where we spoke to more than a thousand people about "Microcredit and Basic Income as forms to eradicate poverty and to promote entrepreneurial activity". There, as well as in Bangladesh, in November 2007, and last June 12, in Brasília, I had various dialogues with Professor Yunus about how these two instruments could be harmonized to eradicate poverty and to promote development with more justice.

President Luiz Inácio Lula da Silva went to Berlin, when he returned from a visit to Índia, exactly on the day of that conference, in June 2007, and on that occasion, Professor Götz W. Werner asked me to hand over his book and to invite President Lula to come to visit Germany soon after Brazil establishes the Citizen's Basic Income. At the Brazilian Embassy that night, in the presence of the Minister of the Foreign Trade, Celso Amorim, I gave the book and conveyed the invitation to the President, who told me:

"Eduardo, we will have three years of good economic growth, and then we will do it."

I will do my best to help President Lula reach this target.

Senator Eduardo Matarazzo Suplicy

São Paulo, June, 2008.

Dialogue with Prof. Scott Goldsmith³

From: Sen. Eduardo Suplicy

Sent: Tuesday, June 03, 2008 3:21 PM

To: Scott Goldsmith

Subject: Alaska performance as an example for other places in the world to apply a citizen's basic income

Dear Professor Scott Goldsmith:

Since you have presented your paper on the Alaska Permanent Fund Dividend system I have quoted it many times. One example is in my exposition recently made in Bagdah when I recommended to the Iraqi authorities that they should follow the example of Alaska as a way to democratize and pacify their nation, as you may see in the attached report.

Last week I had a 10 minute conversation with Professor Edmund Phelps, who presented a paper, here attached, in an important forum in Rio de Janeiro. He praised the Brazilian Bolsa Familia program, since it is related to educational opportunities, but he did not recommend an unconditional basic income to all. In my conversation with him, I mentioned the positive evidence of the Alaska dividend system that, as you show in your paper, it has made Alaska the most equal of the 50 American States and that, today, it is considered political suicide for any political leader in Alaska to be against its existence. I mentioned that I have visited Alaska in 1995 for 7 days. I have spoken to many people and most of them spoke in favor of the system. I didn't see anyone saying that he or she was not working because of the APF dividend. Phelps mentioned that the dividend system was a relatively small sum compared to the average income of Alaska. But he didn't know much about Alaska.

He reminded me of his debate with Philippe Van Parijs about the Basic Income in the 2000 issue of the Boston Review, reproduced in Philippe's "What's Wrong with a Free Lunch".

I thought that it would be nice to send to Professor Edmund Phelps some evidence of the development of Alaska. It would be also important for all of us that will be meeting at the XII International Congress of BIEN next June 20,21 in Dublin, Ireland. Let me tell you that next June 16-18 I will be in Dili, attending President José Ramos Horta's invitation to show that the Citizen's Basic Income could also be a good solution for the 1.1 million inhabitants of East Timor.

I would appreciate if you may comment and send more precise information on the evolution of the Alaska economy. Looking at the data published by the Bureau of Economic Analysis [www.bea.gov] we may see that Alaska is the sixth highest Per Capita Real GDP in the US, with US\$ 43,748 in 2006, higher than the US average of US\$ 37,714.

If we look at the figures of the average growth of the GDP in millions of current dollars from 1997 to 2006, we see the evolution from US\$ 8.237.994 to 13.149.033 for the USA and from US\$ 25.028 to US\$ 41.105 for Alaska respectively, with a anual average growth of 5.30% for the USA and of 5.90% for Alaska. That is a positive result.

However, according to the BEA, if we look at the figures in millions of chained 2000 dollars, the annual average growth of Alaska was only 0.50% and that of the USA was 3.10% during the period 1997-2006. For the Per Capita real GDP in chained 2000 dollars, the average growth from 1997 to 2006 was -0.60% for Alaska and 2.00% for the USA. That is not a good result for Alaska. But it seems strange that a better result in nominal terms is transformed in its reverse when it is calculated in real terms once the deflator is the same one. I would appreciate if you may comment on this.

³ Professor of Economics, Institute of Social and Economic Research, University of Alaska Anchorage.

With respect to unemployment the Department of Labor and Workforce Development of the State of Alaska shows that in April 2008 the rates were respectively 6.7% and 5.0% for Alaska and USA; in April 2007, 6.0% and 4.5%. In your view, to what extent the APF Dividend system has an effect on this unemployment rate?

As you may see from my paper, in general I have been arguing that the APF dividend system is a good example for those nations such as Brazil and some others that would like to build a society with a higher degree of justice and that would like to combine economic growth with equity.

With my best regards,

Senator Eduardo Matarazzo Suplicy

De: Scott Goldsmith **Enviada em:** segunda-feira, 9 de junho de 2008 21:40

Para: Sen. Eduardo Suplicy

Assunto: RE: Alaska performance as an example for other places in the world to apply a citizen's basic income

Dear Senator Suplicy,

Thank you for your recent correspondence and enquiry about the effects of the PFD on Alaska's economy and population. Last year marked the 25th year that the dividend has been in existence and that every Alaska citizen has received a payment. During that time much has changed in the Alaska economy and it is sometimes difficult to identify which of those changes can be traced to the dividend and which to other factors. Furthermore, the economic effects of the dividend have not been studied very much, primarily because Alaskans are suspicious of any studies because they feel the studies might be motivated by a desire to revise, change or eliminate the dividend program. In spite of those challenges, I think there are some things that we can definitively say about the program. Keep in mind that the dividend is a relatively small share of total cash income for the median family, but it is certainly not insignificant. Furthermore it is growing at a rapid rate both because the formula for the size of the payout is based on the average return of the fund over the previous 5 year period and the return last year set a record--I think it was 17%.

Because each person gets the same amount, it clearly flattens the income distribution by raising the lower end of that distribution. It in effect creates a floor below which no one falls. However not all of the leveling of the distribution in recent years can be attributed to the dividend because the mix of new jobs added to the economy has favored relatively low wage jobs in retail and services. This lower than average marginal wage has reduced the share of households with very high incomes.

The dividend has not had a noticeable effect on the labor market. For structural reasons the Alaska unemployment rate has always been higher than the US average. There is no evidence, although there is little real data, that the labor force participation rate has fallen because of the dividend. This can be tricky however, since a worker who has collected all 25 dividends might choose to retire 6 months or a year sooner because of it.

One of the interesting features of the PFD is that it is distributed in an economy with open borders to the rest of the US (after essentially a 1 year "waiting period"). Economic theory would suggest the dividend would draw population into the state, driving down the wage rate and driving up the price of housing. The result would then be a dissipation of the benefits of the program away from the intended recipients who receive a dividend, but pay for it in the form of a lower wage and higher cost for housing.

There is no evidence that the wage rate is lower or that housing costs are higher due to the dividend, yet. However as the size of the dividend grows relative to total household income, one would expect to see those effects begin to appear. There is some evidence that the dividend has served as a "population magnet", particularly for some groups that may not be tied into the labor market--retirees for example. However Alaska has neither an income nor sales tax and their absence is also a "population magnet" for this group as well as others. Of course this kind of adjustment would not be a concern if a dividend were distributed to all persons in the entire country.

Economists wonder whether the dividend is treated by households as a windfall or as part of permanent income. One would think that after 25 years it is viewed as part of permanent income, and the one study published in the American Economic Review reached that conclusion. My feeling however is that though this might be the case for some households, particularly higher income households for which the dividend is a small increment, for many it does not adequately describe what is going on for a couple of reasons.

First, for lower income households liquidity constraints often prevent them from making purchases of consumer durables. When a low income family of 4 receives 4 \$2000 dividends their liquidity instantly jumps and they can buy a snow machine, boat motor, etc. that might otherwise be beyond their reach. Second, I think there are significant "framing" effects associated with the dividend distribution, that influence what people do with the money. These framing effects are in the form of private advertisements and "special deals" offered by retailers, that appear just as the dividend is being distributed, obviously in an attempt to attract consumer dollars. Combined with the fact that the dividend appears just as the Christmas holiday shopping season has begun, and the result is that many people view the dividend as a kind of "Christmas bonus". These factors do not necessarily undercut the permanent income hypothesis that says most of the money will be spent, but they do influence what the money is spent on. For example, if the dividend were distributed in 12 equal monthly installments, I think that it would be spent quite differently.

The state government takes a very passive role regarding the question of how to "frame" the distribution. Its position seems to be that the PF and consequently the dividend belong to the citizens and consequently the government has no role in fostering any particular kind of behavior regarding the dividend. Specifically, there is no effort to educate recipients on the opportunities for investment or asset building that the dividend represents. Since the border is open to other states, a certain share of the dividends leaves the state each year as people migrate elsewhere (admittedly a small share). Furthermore there is no attempt to counter the barrage of private sector advertisements and special deals that might be biasing recipients towards spending rather than saving or investing. Critics of the dividend argue that the dividend is spent primarily on current consumption and that a larger share of it should be invested within the state. That is one reason that former governor Hickel, for example, advocates a "community dividend". It has the attractive features of requiring a communal decision, and the likelihood that it would be spent on something with longer term benefits than personal consumption.

On the question of whether the dividend has helped to create a strong economy, I think the answer is that it has helped to expand the size of the economy, but there is no evidence that it is stronger. First of all you should not use the gross state product data to measure the health of the economy. The gross state product data in Alaska is dominated by oil production and fluctuations from year to year tend to be dominated by changes in the market price of oil. And although the per capita GSP is higher than the US average, it has been growing more slowly than other states, mostly because oil production has been declining. After more than a generation, the Alaska economy is still very highly dependent on oil. Investments to broaden the economic base have not borne much fruit. This is not the fault of the dividend, but on the other hand the dividend has not stimulated economic development. Rather it has stimulated economic growth.

In other economic circumstances a dividend could probably do a better job of stimulating economic development. Part of the problem for Alaska is that structurally we have a limited set of opportunities for economic development due to our dependence on natural resources (harvests are limited if we are to follow a sustainable development strategy), distance from markets, high cost of doing business, etc.

I hope this helps you to understand the Alaska circumstances a little better.

Scott Goldsmith
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