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**Working Paper**

## The controversial Brazilian welfare regime

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# UNRISD

United Nations Research Institute for Social Development

Working Paper 2017-10

## **The Controversial Brazilian Welfare Regime**

*Lena Lavinás, Denise Gentil and Barbara Cobo*

prepared for the UNRISD project  
New Directions in Social Policy:  
Alternatives from and for the Global South

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The project examines the emergence, nature and effectiveness of recent developments in social policy in emerging economies and developing countries. The purpose is to understand whether these are fundamentally new approaches to social policy or welfare systems which could offer alternative solutions to the critical development challenges facing low- and middle-income countries in the 21st century. This research aims to shed light on the policy options and choices of emerging/developing countries; how economic, social, political and institutional arrangements can be designed to achieve better social outcomes given the challenges of the contemporary development context; how the values and norms of human rights, equity, sustainability and social justice can be operationalized through “new” social policies; and how experiences, knowledge and learning about innovative approaches can be shared among countries in the South. For further information on the project visit [www.unrisd.org/ndsp](http://www.unrisd.org/ndsp).

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## Acronyms

|       |  |
|-------|--|
| ANFIP | Associação Nacional dos Auditores Fiscais da Receita Federal |
| BIP   | Banking Inclusion Project                                    |
| BPC   | Noncontributory Regular Benefit                              |
| BSM   | Brazil Without Extreme Poverty                               |
| DRU   | Discontinuing of Federal Revenue                             |
| GDP   | Gross Domestic Product                                       |
| GFCF  | Gross fixed capital formation                                |
| IBGE  | Brazilian Institute of Geography and Statistics              |
| MCMV  | Minha Casa Minha Vida  |
| MEI   | Individual Micro-Entrepreneur                                |
| PAYG  | Pay As You Go  |
| PBF   | Bolsa Família Program  |
| RGPS  | General Social Insurance Regime                              |
| RPPS  | Special Social Insurance Civil Servants Regime               |
| SUAS  | Single System of Social Assistance                           |
| SUS   | Unified Health System  |

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## Summary

The turn of the century brought encouragement and hope for many emerging economies undergoing a new phase of growth, with falling inequality and a promising push towards greater social inclusion. Within this trend of economic recovery and increased equity, Latin America would stand out, with Brazil taking a place of pride. Both the country and the region saw a significant drop in their notoriously high levels of income inequality and poverty over the course of the first decade of the century.

Brazil ultimately became a conduit for broader hopes of overcoming underdevelopment, standing as a benchmark for a new model of inclusive growth, both in Latin America and across the countries of the Global South. Indeed, from 2003 to 2013, the Gini index for per capita household income slid from 0.594 to 0.525 (IBGE- PNAD 2003-2013), while the share of poor population shrank noticeably: in 2013 the poor stood at 14.6 million, 7.6 percent of the population, as opposed to 47 million or 27.7 percent ten years earlier

This paper aims to address the role played by social policies and the social protection system in paving a new economic regime in Brazil (social developmentalism), and examine the kind of coordination between macroeconomic policies and social spending that ultimately prevailed in both cycles (growth and recession). This will mean analysing the link between the expansion of the economy and the existing social protection system to grasp new social policy arrangements that emerged as of late.

The solid predominance of cash transfers in the Brazilian social protection system—investing more towards correcting market failures than towards promoting equity—forged a very specific relationship between economic and social policy in the transition to a mass consumer society. That relationship is shaped by the use of social policy as collateral for financial inclusion, revealing the fragility of this new “social model,” especially in light of the current drastic slowdown of the economy, shortly after 2014.

In order to address these issues:

a) We first describe the social protection system, set up in 1988, and the constellation of new social schemes (predominantly residual) introduced in the 2000s. We analyse the structure of social spending and its consequences, and discuss how the social protection edifice has been jeopardized by underfinancing and tax breaks. The focus is on the social security system, which comprises pensions, healthcare services and anti-poverty programmes.

b) Secondly, we point out how social policies have been used as a strategic development tool in order to enhance market incorporation through the promotion and expansion of a mass consumption society. In so doing, we highlight the positive but also the unintended consequences of the role given to social protection, in terms of the way economic and social policies have interacted. Our main goal here is to identify spill-over effects and complementarity between economic policies and social policy design and implementation in both economic cycles (2003-2010 and 2011-2014). We trace how financialization has been integrated into this framework, paving the way towards greater re-commodification, rather than promoting decommodification.

c) Finally, we depict how shifting contexts at the world level are affecting the national economy and compromising the future of the Brazilian social protection system, yet again constrained and limited by macroeconomic priorities. Special attention is given to the

way social policies are pared down to facilitate the current fiscal adjustment, and how this downward trend threatens the institutions of social security.

Over the past decade, the hallmark of the new Brazilian welfare model has been the prioritizing of monetary expenditures over what we might call investments in social infrastructure, aimed at equalizing opportunities and levels of well-being. At the same time, this model spurred on the mass consumer market, as well as the financialization that effectively provides access to durable and nondurable goods, and to services where the private sector steps in for the public sector—healthcare and education in particular.

In driving on commodification, this model weakened the ongoing consolidation of the social security system, reinforcing dynamics that segment, discriminate and condition access to social rights. The welfare regime that is surfacing is nothing more than an additional function now attributed to social policy—in this case, custom-fit to the logic of financial capitalism.

**Keywords**

Brazil; social protection; financialization; welfare regimes; social security; recommodification



## Introduction

The turn of the century brought encouragement and hope for many emerging economies undergoing a new phase of growth, with falling inequality and a promising push towards greater social inclusion. Within this trend of economic recovery and increased equity, Latin America would stand out, with Brazil taking a place of pride. Both the country and the region saw a significant drop in their notoriously high levels of income inequality and poverty over the course of the first decade of the century.

Brazil ultimately became a conduit for broader hopes of overcoming underdevelopment, standing as a benchmark for a new model of inclusive growth, both in Latin America and across the countries of the Global South. Indeed, from 2003 to 2013, the Gini index for per capita household income slid from 0.594 to 0.525 (IBGE-PNAD 2003-2013), while the size of the population living in poverty<sup>1</sup> shrank noticeably: in 2013 the poor stood at 14.6 million, 7.6 percent of the population, as opposed to 47 million or 27.7 percent ten years earlier (Lavinás 2014a). After just over two decades of mediocre economic performance (1981-2003) and with an average GDP growth rate of 2 percent per annum (Bielschowsky and Mussi 2013), Brazil moved to an annual growth rate of 4.4 percent during the period 2004-2010 (Bielschowsky 2015:13), with a rise in investments (9 percent annually), the creation of around 21 million formal jobs (Lavinás et al. 2014), a real increase in average salary, low inflation, and a vigorous expansion in household consumption, crucial factors in consolidating the new, so-called “social developmentalist” growth cycle (Carneiro 2012; Bastos 2012; Bielschowsky 2015; Biancarelli and Rossi 2013; Lavinás 2015).

Social developmentalism intended to address missing links on the demand side in order to invigorate the economy. This strategy was conceived by the Workers’ Party government as the most efficient and effective means of overcoming the obstacles delaying the emergence of a major market society, with trickle-down effects capable of maintaining the economy functioning permanently at its growth potential. According to this (now prominent) framework, a virtuous cycle of development would be engendered through demand—fueling investment, increasing productivity gains and raising real wages, thereby expanding consumption and scaling up the reproduction of the cycle, which would (in the end) consistently propel the aggregate value curve upwards.

One might ask what role social policies and social security systems played in driving economic growth along with falling inequities and rising quality of life and, for that matter, whether the interaction between economic and social policy as adopted by social developmentalism in Brazil introduced a new welfare model for the developing world. That is the aim of this article.

Social developmentalism means that the state takes a leading role in formulating a national development plan designed to overcome the bottlenecks hindering technical advancement, innovation and productive diversification, while also incorporating plans for social inclusion (Lavinás and Simões 2015). The latter element was said to set social developmentalism apart from structuralist thought as formulated in the 1950s by seminal Cepalian thinkers such as Prebisch (1949). Social developmentalism therefore pays attention to social issues and equity as a constitutive part of the new economic model, standing among the priorities for state action.

---

<sup>1</sup> The poverty line employed here is from the Bolsa Família Program, which was awarded to those with less than BRL 140.00 (USD 60) in monthly per capita household income in 2013. In 2015, that figure was partially corrected to account for inflation, rising to BRL 154.00 (USD 44). In both cases the exchange rate was different. In 2013: USD 1 = BRL 2.30; in 2015 USD 1 = BRL 3.50.

Gentil (2013:1) recognizes “the new status attained by social policies in the post-2004 period”, in the same vein as Fagnani (2014; Fonseca and Fagnani 2013), who sees this latest model of development as facilitating integration of both social and economic goals between social and economic aims. Clearly, there came a significant increase in the extension of minimum social standards to the needy and extremely vulnerable, as well as an expansion of welfare coverage (85 percent) for the elderly, made possible by effective social security. These factors, tied to the constant rise in the real minimum wage (Saboia 2015) and the creation of millions of formal jobs, were crucial in bringing over 30 million people into the consumer market.

However, the solid predominance of cash transfers in the Brazilian social protection system—investing more towards correcting market failures than towards promoting equity—forged a very specific relationship between economic and social policy in the transition to a mass consumer society. That relationship is mainly shaped by the use of social policy as collateral for financial inclusion (Soederberg 2013), revealing the fragility of this new “social model,” especially in light of the drastic slowdown of the economy since 2015.

Indeed, there are indications that the wave of prosperity is ebbing. Since 2011, socioeconomic indicators have either stagnated or slipped slightly. Gentil and Hermann (2015a), among others, have identified a crisis in the country’s growth pattern: rates of economic expansion falling (2.1 percent per annum from 2011-2014), decelerating private investment and domestic consumption, rising unemployment, high inflation pressing ever-higher interest rates and growing fiscal deficits. The pace of expansion for social spending has been curbed, leading to a sharp shrinking of its multiplier effect on consumption (Gentil and Araújo 2015).

Latin America as a whole has hardly come out unscathed from the financial crisis: the regional situation is quite similar, amidst a challenging international scenario with steeply falling commodity prices, slowed growth in China and a sluggish economic recovery, which is threatening to wipe out the effects of the recent, unprecedented phase of “inward development” (Bielschowsky and Mussi 2013) with “social inclusion”.

In order to reverse this economic downturn, President Dilma Rousseff’s second administration (2015-2018) has embarked on a strong and unexpected fiscal adjustment aimed primarily at social policies, which have been scaled down by severe cutbacks. Even the scope of social rights that have been guaranteed in the 1988 Constitution has been narrowed. Consequently, social policy has lost its drive as a key mechanism to boost economic growth through market incorporation.<sup>2</sup> Long-standing dilemmas on how to cope with underdevelopment once tempered by the commodity boom re-emerged, while growing inflation<sup>3</sup> endorsed a move towards greater orthodoxy in monetary policy.

This paper aims to address the role played by social policies and the social protection system in paving a new economic regime in Brazil—social developmentalism—and explain the kind of coordination between macroeconomic policies and social spending that ultimately prevailed in both cycles of growth and recession. It particularly focuses on the relationship between the expansion of the economy and the existing social protection

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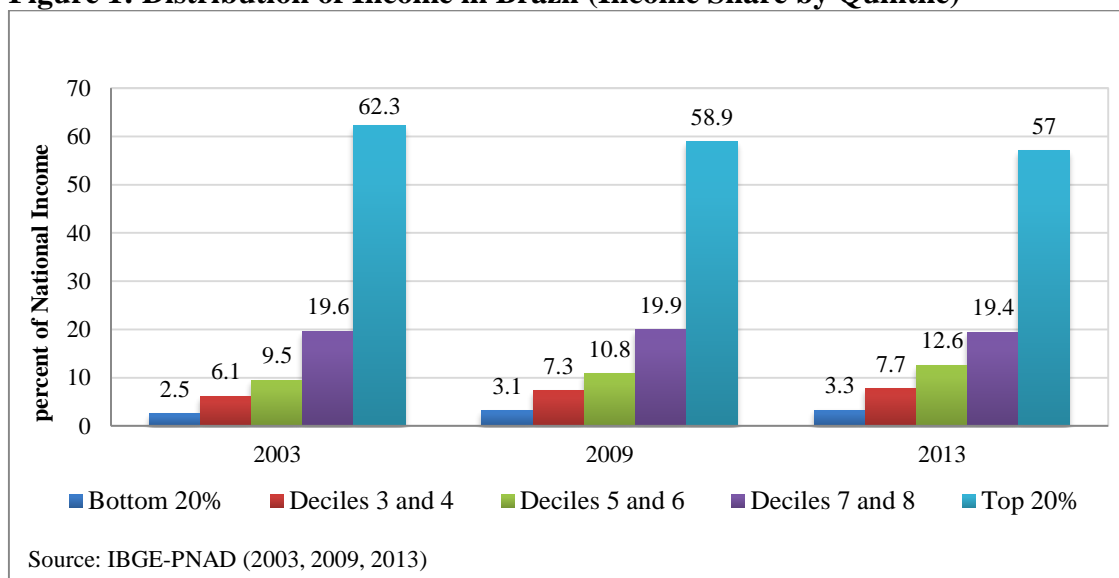
<sup>2</sup> “Market incorporation refers to people’s participation in the cash nexus, which in turn requires the creation of a sufficient number of formal well-paying private and public jobs. Social incorporation refers to people securing their well-being independently of the cash nexus, that is, in a non-commodified or de-commodified fashion (Esping Andersen 1990)” (Martinez Franzoni and Sánchez-Ancochea 2013:1).

<sup>3</sup> For the first time since 2002, the inflation rate broke the two-digit barrier: 10.67 percent in 2015.

system. What new social policy arrangements emerged during the expansionary cycle? Did they contribute to strengthen the social security system? Were they genuinely innovative? Did they address major social development bottlenecks? Will these positive interactions between economic and social policies withstand times of severe macroeconomic austerity? Last but not least, has social cohesion been reinforced in a society profoundly polarized by persistent inequalities and ingrained discrimination?

One should recall that, despite noteworthy reductions in inequalities, the poorest 40 percent held just 11 percent of national income (mainly salary and benefits) in 2013, as opposed to 8.6 percent in 2003. That percentage is not radically different from the portion claimed by the richest 1 percent: 11.6 percent (IBGE-PNAD 2013). The share of the richest 20 percent, while having contracted slightly, still stood at 57 percent of national income (Figure 1). Thus, income redistribution was limited and has not drastically lessen the gap between the richest and the poorest in Brazil.

**Figure 1: Distribution of Income in Brazil (Income Share by Quintile)**



In order to address these issues: we first describe the social protection system, set up in 1988, and the constellation of new social schemes (predominantly residual) introduced in the 2000s. We analyse the structure of social spending and its consequences, and discuss how the social protection edifice has been jeopardized by underfinancing and tax breaks. The focus will be on the Brazilian social security system, which comprises pensions, healthcare services and anti-poverty programs.

Secondly, we explain how social policies have been used as of late as a strategic development tool in order to enhance market incorporation through the promotion and expansion of a mass consumption society. In so doing, we highlight the positive but also the unintended consequences of the role given to social protection, in terms of the way economic and social policies have interacted. Our main goal here is to identify spill-over effects and complementarity between economic policies and social policy design and implementation in both economic cycles (2003-2010 and 2011-2014). We trace how financialization (Fine 2014, Palley 2013) has been integrated into this framework, pave the way towards greater re-commodification, rather than decommodification.

Finally, we depict how shifting contexts at the world level are affecting the national economy and compromising the future of the Brazilian social protection system, yet again

constrained and limited by macroeconomic priorities. Special attention is given to the way social policies are pared down to facilitate the current fiscal adjustment, and how the downward trend threatens the institutions of social security.

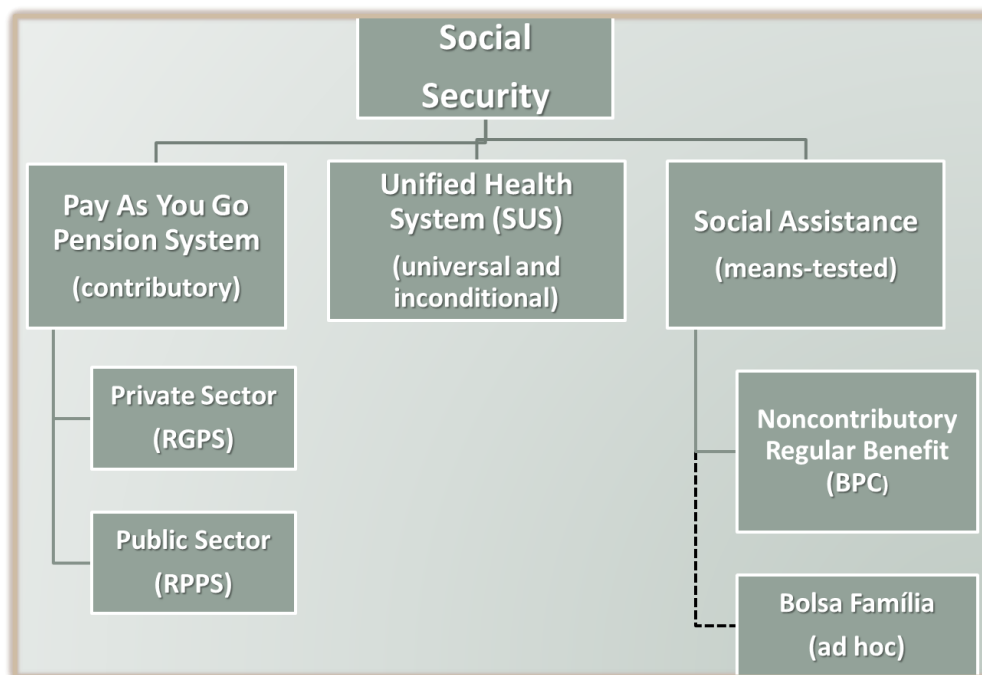
We thus expect to create a more accurate portrait of the contradictions, challenges, changes and continuity in the Brazilian social welfare system, stressing the flaws and positive complementarities that make the Brazilian case uncommon.

## Social Protection System and its Financing in Brazil

A modern and comprehensive social security system was forged at the National Constituent Assembly in 1987-88, amidst a heated national debate over the path the Brazilian nation ought to take after the end of its authoritarian regime. The design of the social security system was influenced by the mobilization of a number of social sectors which had played a significant role in shaping the Brazilian welfare state. Article 194 of the new Constitution stipulates that “Social security comprises an integrated whole of actions initiated by the Government and by society, with the purpose of ensuring the rights to health care, social insurance and social assistance.”<sup>4</sup>

For the first time, a clear and well-defined concept of social security was formulated and applied in Brazil, tied to the public provision of health services, pension benefits and including compensatory mechanisms to combat poverty. Notably, the incorporation of social assistance under the umbrella of social security came as an extremely relevant institutional innovation. Until this point, care for the poorest and destitute had been limited to charity and philanthropic organizations, acting independently and without any public guidelines. Until 1988, social welfare had not been among the state’s legal obligations.

**Figure 2: The Brazilian Social Security System**



The new system thus rejected the fragmented and highly segmented social insurance approach, tailored as it was to formal workers with contributory records. New

<sup>4</sup> Brazilian Constitution, 1988, t. VIII, ch II, art. 194.

entitlements, based on citizenship rights rather than on work status, made it possible to extend social protection to the whole population, without exceptions.

Social security in Brazil is comprised of a tripod of contributory social insurance, targeted means-tested assistance (noncontributory) and universal health care, which rests on its own financing system, as outlined in Article 195 of the Constitution: the Social Security Budget. The government introduced social contributions to subsidize the new model of social protection. The aim was to diversify the tax base and shield revenues from eventual adverse economic cycles, when counter-cyclical spending tends to grow. In addition to payroll taxes (amounting to approximately 48 percent of all social security revenues), social welfare is now financed through taxes on corporate revenues and profits as well as on indirect taxes/revenues.<sup>5</sup>

Therefore, the Social Security Budget is a public fund to which all Brazilians contribute, either through compulsory means such as social insurance or through various indirect taxes<sup>6</sup> levied on the consumption of goods and services.

In 2013, regressive indirect taxation made up 51.3 percent of the Brazilian tax burden and 52 percent of the Social Security Budget (ANFIP 2014).

Since 1994, however, budgets across federal government departments have seen a linear cut of 20 percent of their revenue. The Social Security Budget was not immune, but the cut came from non-social insurance contributions (therefore affecting exclusively health care and welfare spending). Actually, the Constitution stipulates that resources may not be diverted from payroll contributions tied to social insurance benefits. Therefore, this linear cut only affected programmes that did not provide social insurance benefits.

This confiscation of taxation, dubbed DRU (Disconnecting of Federal Revenue, in English) has been continually used in the name of forming a fiscal primary surplus. Absolute values increased on a regular basis, due to the rise in revenue driven by the return of economic growth, as well as to increasing rates on some social contributions. In the year 2013, BRL 63.5 billion (USD 28.4 billion<sup>7</sup>) were taken from the Social Security Budget alone, by the DRU mechanism. That sum was equivalent to 74.3 percent of all federal public spending in healthcare, reflecting the DRU's negative impact in terms of shrinking social spending and jeopardizing universalism.<sup>8</sup> Despite this seizure of revenues for non-social insurance social protection programmes, the Social Security Budget has annually reported a surplus. The combination of constitutional protection of

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5 The Social Security Budget comprises the following funding sources: a) Contribution to Social Insurance (Payroll)—mandatory contributions from employees and employers, optional for freelancers and other categories, guaranteeing the right to a number of welfare benefits in case of definitive or temporary cessation of activity. Rates range from 5-20 percent, depending on the taxpayer's kind of employment. These contributions are tied to the payment of contributory benefits; b) COFINS (Contribution to the Financing of Social Security)—based on the total revenue taken in by private-law legal entities (companies), taxed at a rate of 7.6 percent in 2014; c) CSLL (Social Contribution on Net Income)—draws from net gains reported by legal entities (companies), with a rate of 9 percent applied to businesses in general and 15 percent for legal entities in the financial sector (banks, insurance agencies and capitalization); d) PIS/PASEP (Social Integration Plan/Civil Servants' Investment Program)—workers' contribution to subsidize unemployment insurance and wage benefits (a salary of one annual minimum wage). e) Other contributions, including taxes levied on lottery revenues. e) Other Revenues from Entities within Social Security (Ministries). Since COFINS and PIS/PASEP, for instance, affect the final consumption of every product, one might call them contributions paid by the whole population. In contrast to this, the rest is the responsibility of workers and employers, whereby the former contributes far more than the latter. Mandatory contributions from employees and employers represent 47 percent of all resources. Taxes levied on consumption amount globally to the rest. For more information, see Lavinás (2014b).

6 According to Khair (2008), indirect national taxes on the consumption of goods and services (generally known as consumption tax) represented on average 38 percent of products' final prices in 2008.

7 Average exchange rate in 2013 USD 1 = BRL 2.30.

8 According to Lavinás (2014b:20), from 2000-2012 alone, the DRU took around USD 300 billion from the Social Security Budget.

the budget for social insurance and the linear cut to create fiscal surplus resulted in a budget paradox: enough budget to fund social insurance benefits and an underfunded healthcare system in the context of net budget surplus. Consequently, it jeopardized the universal healthcare system.

In what follows, we briefly describe the multiple dimensions of the Brazilian social security system.

### ***Social assistance: safety nets for the neediest***

Two major means-tested schemes provide a safety net for the demonstrably poor population. One is the Noncontributory Regular Benefit (BPC), enshrined as a right since 1988. It guarantees assistance in the form of one minimum wage for the elderly and persons with disabilities with per capita household income equal to or less than a quarter of the current minimum wage. The program is not conditional, and currently reaches 4.2 million beneficiaries, who are not pensioners but rather social assistance beneficiaries. In addition, the administration of President Lula da Silva introduced the Bolsa Família Program (PBF) in 2004, extending the coverage of a safety net to the poor population that fell outside the BPC's eligibility criteria. The PBF remains an ad hoc programme, yet to be consolidated as a right, and is hence subject to the discretion of the federal executive.

The programme's criteria and benefits standards also differ from the BPC: its poverty and indigence thresholds are lower, BRL 154 (USD 67) and BRL 77 (USD 33.4) in per capita monthly household income, respectively; the program includes several conditionalities; the value of benefits varies depending on the demographic composition of the family. In 2015, the average value disbursed by the PBF was BRL 167/month (USD 48)<sup>9</sup> per household, which would mean BRL 1.4 (USD 0.5) per capita/day for a family of four, while the BPC benefit amounts to BRL 6.5 (or USD 1.87) per capita/day for a family of four.

It is worth stressing that the BPC is not a family benefit like Bolsa Família, but rather an individual one.

Total spending on social assistance schemes (BPC and the PBF) in Brazil stood at 1.2 percent of GDP at the end of 2013 (ANFIP 2014), as seen in Table 1—the equivalent of BRL 57.8 billion (USD 25.1 billion).

Brazil thus lacks a single and unique poverty line and a set of common parameters with which to approach monetary poverty and its ills. The mainstream understanding is that poverty relief—via monetary transfers to families—is a short-term strategy, while compliance with conditionalities (school attendance for children and adolescents, up-to-date vaccinations for children, prenatal checkups for pregnant women and monitoring of children and nursing mothers), as well as optional participation in so-called complementary programs (job and income creation, adult literacy, provision of vital records and other documents) are strategies meant to help these families move out of poverty in the middle and long term.<sup>10</sup>

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9 The average exchange rate in 2015 was USD 1 = BRL 3.4.

10 At the same time, the period has also been marked by the institutionalization of the Single System of Social Assistance (SUAS), based on the National Social Assistance Policy (PNAS) and the Social Assistance Act (LOAS), responsible for organizing the services, programs, and benefits that make up social assistance. SUAS calls for the integrated management of social assistance policy, with participative and decentralized operationalization in municipalities. The PBF, however, though clearly providing social assistance, was implemented separately from SUAS and other social welfare policies, with institutionally different management frameworks.

In establishing differentiated institutional frameworks for the whole of the country's poor with coverage varying depending on the kind of program, however, the status quo for poverty alleviation programmes only exacerbates the departmentalization<sup>11</sup> of public policy (Cobo 2012). As a result, horizontal inequalities are triggered, with evident negative effects on the universality of a number of services and benefits tied to social protection and guaranteed by the Constitution. If the aim is to include the most vulnerable by aiding them to realize their right to social citizenship, that will be difficult to attain unless the PBF becomes a social right, on equal footing with the social benefits enshrined in the 1988 Constitution and integrated into the Single System of Social Assistance (SUAS) and the other socioeconomic policies currently in place in Brazil.

It became evident that despite the PBF's broad reach, around 2 million people living in extreme poverty were left without coverage as the program was unable to offer full coverage to the target group (the poor) as a whole. To address this, in June 2011, the federal government began the Brazil Without Extreme Poverty (BSM) programme, with initiatives focused on the most impoverished sector of the population targeted by the PBF.

Although mechanisms of actively searching out potential beneficiaries attempted to minimize the inconvenience for those qualifying for coverage, self-targeting remained the programme's main strategy for registering families in the CadÚnico system, or Unified Registry for Social Programs (Cobo 2014). The problem with this sort of approach (registration by demand) is that the most vulnerable families are penalized. The inconvenience costs (transportation, isolation, information asymmetry) are too high, and ultimately leave part of the target population by the wayside, thus denying them certain constitutional rights. Moreover, the PBF's budget is not flexible. Adjustments may be made, subject to the discretion of the Ministry of Finance.

In 2015, 27.2 million families were on the rolls of the CadÚnico—a total of 81.8 million people, or around 40 percent of Brazil's population. The number of PBF recipients, however, stood at just 13.7 million families, approximately 45 million people (MDS 2014). The number of recipients is lower than the number of enrolments for two main reasons: first, self-enrolment brings in those who are not eligible (free-rider behaviors), and second, the budget is limited on an annual basis, and new entrants depend on write-offs.

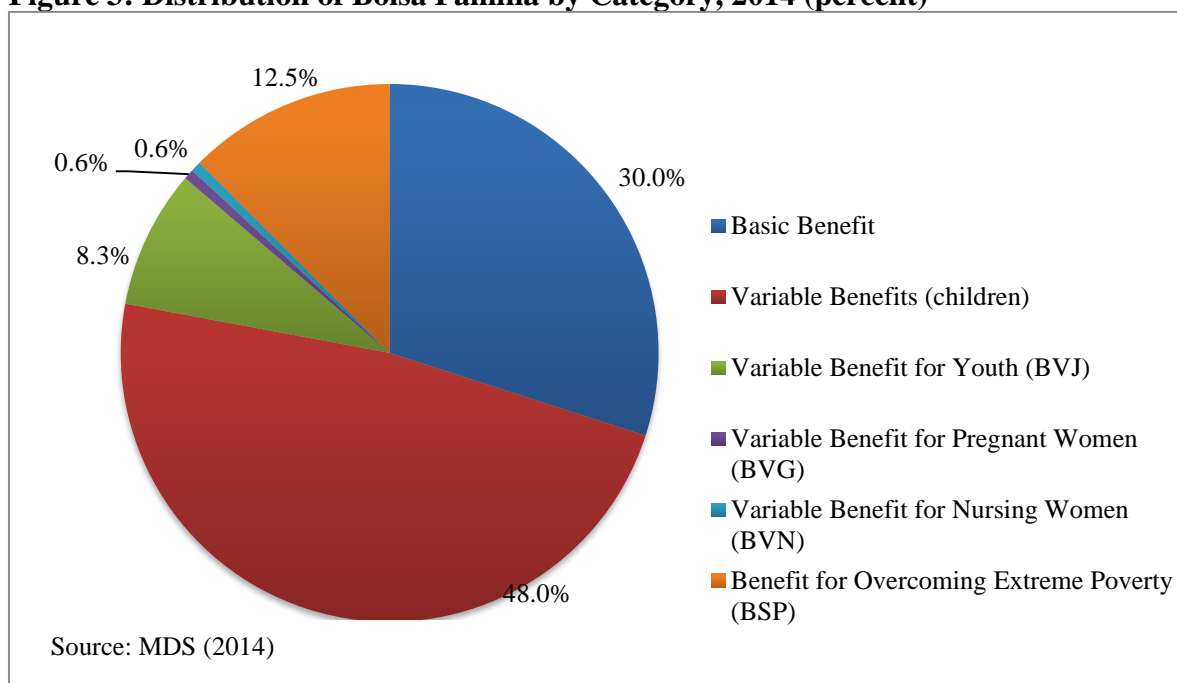
Variable benefits predominate, as evident in Figure 3 (48 percent); these are awarded to children under age 15 in the form of BRL 35/month (USD 10). Fixed benefits of BRL 50/month (USD 14.2) are awarded only to indigent families, but that figure only applies to 30 percent of total Bolsa Família benefits.

Despite criticism, the PBF's status as an important mechanism in fighting extreme poverty is beyond dispute. That said, the benefits set aside for each poor child, per year, are less than the tax funds spent on wealthy children. Note that while annual per capita spending on youth and children<sup>12</sup> covered by Bolsa Família stood at BRL 406 (USD 176.5) in 2013, tax breaks per capita for dependents of those filing personal income returns (the middle- and upper-middle classes, and the wealthiest) came to nearly five times that (BRL 1,975 or USD 858.7) (Lavinás and Cordilha 2015).

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11 Departmentalization means that there is no comprehensive approach, integrated, so as to address poverty alleviation. Programmes remain fragmented and disconnected from one another.

12 In 2013, the Ministry of Social Development estimated that Bolsa Família affected 23 million children from ages 0 to 17. In the case of dependents benefited by tax spending, records indicate that 2.3 million had been affected the previous year—a population 10 (!) times smaller.

**Figure 3: Distribution of Bolsa Família by Category, 2014 (percent)**

Furthermore, there are no standing mechanisms for automatic indexation of the benefits and poverty lines for the PBF. Poverty thresholds, for example, were distorted by their having been frozen for five years (2009-2014). If they had been adjusted for 2015 based on past inflation, the indigence and poverty lines would stand at BRL 93 (USD 26.5) and BRL 186 (USD 53), respectively—higher than the figures currently in place. “Criteria are instituted that discriminate against certain benefits and thus classes of beneficiaries—being a beneficiary of PBF affords a status and conditions that vary from those covered by BPC” (Lavinias and Fonseca 2011:4). The authors underscore the fact that average Brazilian income has risen, as well as labour income. Hence, while the extreme poverty line remains extremely low, it has not followed that upward trend; in consequence, it reduces the [official] numbers of those living in extreme poverty, masking the true dimensions of acute destitution”. This problem partly derives from adopting absolute poverty lines without automatic indexation rules.

If a relative poverty line of 50 percent of median income (akin to lines employed in the European Union) was adopted, the percentage of the Brazilian poor would rise to 23 percent. Today, based on the PBF’s poverty lines, that poverty rate stands at 7.7 percent.

In point of fact, the striking drop in poverty was due principally (60 percent) to economic growth and job creation, which elevated labour income and lifted millions in Brazil out of poverty. Secondly, the impact of public pensions tied to the minimum wage was also noticeable (25 percent). Social assistance safety nets, in comparison, had a much smaller impact (Lavinias 2013a), estimated at about 15 percent.

### **Social insurance**

Despite lingering flaws, Brazil has managed to establish a surprising degree of pension coverage, tending towards universality among those aged 65 and older. Estimates indicate that 85 percent of Brazilian senior citizens receive some sort of pension (Ministério da Previdência Social 2015).



Rural pensions with no contribution requirement (setting them apart from their urban equivalents), the social insurance floor tied to the minimum wage<sup>13</sup> and the existence of an upper limit for contributions and benefits are some of the characteristics of the so-called General Social Insurance Regime (RGPS), a public “pay as you go” (PAYG) system with considerable credibility. The structure of the social insurance system thus sharply attenuates long-standing divisions (an extremely stratified framework), while working around one of the pitfalls of social security (that access is limited only to contributors). The RGPS also includes a broad array of contribution conditional benefits, including unemployment insurance, sick leave, workers’ compensation and six months of maternity leave, covering both rural and urban workers.

In 2013, expenses on distinct social insurance benefits (pensions, maternity leave, sick pay, accident benefits and reclusion aid, among others) under the RGPS came to 7.38 percent of GDP, for a total of BRL 357 billion (USD 155.2 billion) (Ministério da Previdência Social).

The rises of minimum wage in recent years had a direct impact on the income of those covered by the pension system, since the system’s lower limit is set, by law, at a single minimum wage (BRL 788 or USD 225/month in 2015) (BACEN, time series).

The PAYG pension system functioned through mid-2015, regulated by a simple rule in the case of urban residents: men might apply for their retirement benefits at age 65 or after 35 contributory years, and women at age 60 or after 30 contributory years. These parameters led to the average age of retirement to be below the aforementioned minimum ages, which ultimately reduced the value of the benefit.<sup>14</sup> The rule has been questioned for some time now, however, given the argument that the increase in life expectancy<sup>15</sup>—especially in the case of women—would call for gradually raising the minimum retirement age, as well as setting a single age for both men and women. Late 2015 thus brought a new formula for calculating retirement benefits. In order to obtain the full sum, female applicants’ age plus contributory years must now equal 85 or more; for men, the minimum total is 95. The government plans to progressively increase these figures, eventually arriving at a minimum of 105 for both men and women at a point still to be determined (probably 2030).

According to the National Association of Fiscal Auditors of Brazil’s Federal Internal Revenue Service (Associação Nacional dos Auditores Fiscais da Receita Federal, ANFIP), two-thirds of all active retirement benefits are set at the current minimum wage. In rural areas, that percentage stands at 99 percent. Another difference between rural and urban pension benefits is that small farmers and rural workers on family farms, both men and women, are awarded benefits starting at age 60 and 55, respectively, without regard to the number of previous contributions. They have only to provide proof of having worked exclusively in family-run agriculture. It is very likely that rural pensioners will have to adjust to the 85/95 rule being applied to the urban population. Their advantage is now under scrutiny.

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13 In Brazil, according to the 1988 Constitution, the basic pension (contributory) is equivalent to the current minimum wage.

14 It is worth stressing that the Fernando Henrique Cardoso government created, in 1999, a multiplier mechanism to discourage early retirement, called the “welfare factor”. It still applies. The welfare factor takes into consideration some actuarial elements, such as life expectancy, years of contribution and retirement age. As a result, given that life expectancy increases on an annual basis, the insured, in order to obtain a full benefit, have to extend the period of contribution. This was a very effective way to penalize early retirement and delay retirement awards. But this rule has always been subject to high criticism and is about to be replaced by the rule 85/95.

15 As of 2014, the average life expectancy for women was 78.8 years, as opposed to 71.6 years for men. The national average stood at 75.2 years.

In late 2013, the social insurance system had around 31 million active benefits on its rolls, 83.8 percent being pensions and death benefits, 2.7 percent workers' compensation and 13.5 percent other benefits. Just over 70 percent of those benefits went to urban recipients, and 29.2 percent to rural inhabitants. The average value of urban benefits was higher than their rural counterparts by 57.6 percent (BRL 1,068 and BRL 678, respectively, or USD 464.3 and USD 294.7) (SIAFI-STN, time series).

The latest improvement in pension system is the increased flexibility in contributions to public pensions for the self-employed, so as to compensate for the instability and intermittent nature of self-employment. The legal status of the Individual Micro-Entrepreneur (MEI) was defined in 2008, establishing formal links with social security on the basis of a lower-than-standard contribution rate—a portion of five percent for MEIs, as opposed to 20 percent of a minimum wage for regular contributions. Although their contribution requirements are lessened, they have the right to retire after 35 contributory years for men and 30 for women, and are entitled to a pension benefit equal to one minimum wage. This “special rate” affects some 250 occupations legally categorized under the MEI, mostly performed by the self-employed. The eligibility criteria include an annual income of up to BRL 60,000 (or USD 17,142). As of 2013, over 4 million workers had registered as MEI contributors (Ministério da Previdência Social).

Pensions and other social insurance benefits are thus trending towards broad, growing coverage, which, working from a varied array of statuses, conditions and contribution levels, ensures a body of equivalent and relatively uniform rights. This explains the fact that in 2013, the percentage of Brazilians 65 and older among the population identified as poor was under 2 percent. Recent studies indicate, one should note, that 25 percent of Brazilian households have pension benefits as their main source of income (PNAD 2014).

Finally, attention should also be paid to unemployment insurance, yet another benefit introduced by the 1988 Constitution. The right is reserved exclusively to salaried workers in the formal sector who are fired, guaranteeing temporary financial assistance in the absence of just cause for termination of employment. One must have contributed for at least one year to be eligible for unemployment insurance, a sum slightly higher than the minimum wage of which one may receive up to six monthly payments. Unemployment insurance expenditures represented just around 1 percent of GDP in 2013 (Table 1).

In parallel, there exists a special retirement system in place exclusively for career civil servants. It is dubbed the Special Social Insurance Civil Servants Regime (RPPS), which accounted for 1.22 percent of GDP in 2013<sup>16</sup> and provides higher benefits, on average, than the General Social Insurance Regime. The RPPS is considered a separate system, distinct from the former. However, we can include RPPS transfers under the total of cash transfers as a percentage of GDP, as expressed in Table 1. Both regimes account for total 8.60 percent of Brazilian GDP in that same year.

The Brazilian PAYG pension system has repeatedly faced pressure to reform. Since its creation in 1988, it has undergone several important parameter adjustments, the most significant of which being the institution of the “welfare factor” (see footnote 17), the standardization of the rules regarding contributory time and the value of the benefits (minimum and maximum) distributed by the RGPS and RPPS. With the storm clouds of the economic crisis on the horizon in 2014, President Dilma Rousseff's administration began pushing for a fiscal austerity package with pension reform as one of its priority

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<sup>16</sup> Military pensions excluded.

policies. Hence, it is quite possible that the rules currently in place may change, especially given the ongoing worsening of the crisis and subsequent sharp fall in government revenues. The adjustment factor will immediately affect pensions, since they comprise the largest slice of social spending (Table 1). The unlinking of the minimum wage and the minimum pension benefit, for example (as guaranteed in the Constitution) is currently being debated. And this debate is far from over.

Last but not least, it should be said that Brazil has also set up a complementary, non-compulsory fully-funded system<sup>17</sup>, which is encouraged by means of significant income tax breaks.

Table 1 summarizes the evolution of social spending from 2003 onward, including contributory and noncontributory cash benefits. Over this period, total spending (cash and in kind) increased from 12.12 percent to 14.48 percent of GDP.

Expenses on cash transfers increased 2 percent, going from 9.5 percent in 2003 to 11.5 percent of GDP in 2014. Contributory spending (social insurance and labour), moreover, accounts for 89 percent of all direct cash transfers. Finally, one should note that social spending via cash transfers came to 79 percent of federal social spending in 2014, a figure practically identical to 2003 levels. This speaks to a spending structure focused almost exclusively on monetary benefits, a characteristic that has remained stable over time.

**Table 1: Brazil, Federal Social Spending (Cash Transfers) as Percent of GDP, 2003-2014**

|                                 | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Social Assistance               | 0.49         | 0.71         | 0.73         | 0.89         | 0.91         | 0.92         | 0.99         | 1.00         | 1.03         | 1.17         | 1.21         | 1.24         |
| Social Insurance                | 8.46         | 8.45         | 8.68         | 8.82         | 8.58         | 8.27         | 8.70         | 8.37         | 8.20         | 8.46         | 8.60         | 8.93         |
| Labour                          | 0.55         | 0.55         | 0.59         | 0.68         | 0.71         | 0.70         | 0.85         | 0.79         | 0.82         | 0.88         | 1.25         | 1.26         |
| <b>Total</b>                    | <b>9.50</b>  | <b>9.70</b>  | <b>9.99</b>  | <b>10.39</b> | <b>10.20</b> | <b>9.90</b>  | <b>10.55</b> | <b>10.16</b> | <b>10.04</b> | <b>10.51</b> | <b>11.05</b> | <b>11.43</b> |
| <b>Federal Social Spending*</b> | <b>12.12</b> | <b>12.47</b> | <b>12.88</b> | <b>13.23</b> | <b>12.62</b> | <b>12.24</b> | <b>13.12</b> | <b>12.78</b> | <b>12.64</b> | <b>13.29</b> | <b>13.93</b> | <b>14.48</b> |

\*Includes social assistance, social welfare, healthcare, labour, education, culture, citizenship rights, city planning, housing, sanitation, environmental administration, agrarian organization and sports and leisure.

Source: SIAFI-STN. (Incurred and validated federal expenses) and IBGE (SGS/BACEN).

### ***The Unified Health System: universality under fire***

The Unified Health System (SUS), a universal health service constitutionally guaranteed to all and free of charge, is one of the largest public healthcare systems in the world. The bulk of its funding is federal, with decentralized and specialist-referring administration (the Ministry of Health Care). Coverage ranges from basic treatment to highly complex medical procedures.

While structural advances have been made since the creation of the system in 1988—the breaking of medicinal patents,<sup>18</sup> AIDS programmes, initiatives to bring community health agents to families in needy areas (Programa Saúde de Família, or the Family Health

17 There are two options: open private individual accounts (anyone can subscribe) and closed complementary funding systems (within companies).

18 In 2007, President Luiz Inácio Lula da Silva authorized the breaking of the patent on the HIV medication known as Efavirenz, produced by the American firm Merck Sharp & Dohme. This made it possible to reduce the cost of AIDS-fighting campaigns in Brazil by 72 percent, at the time. The medicine is now distributed free of charge to HIV-positive patients, and the patent infringement has been extended through 2017.

Program)—underfinancing has meant that the quality of public services has not made as much progress as expected.

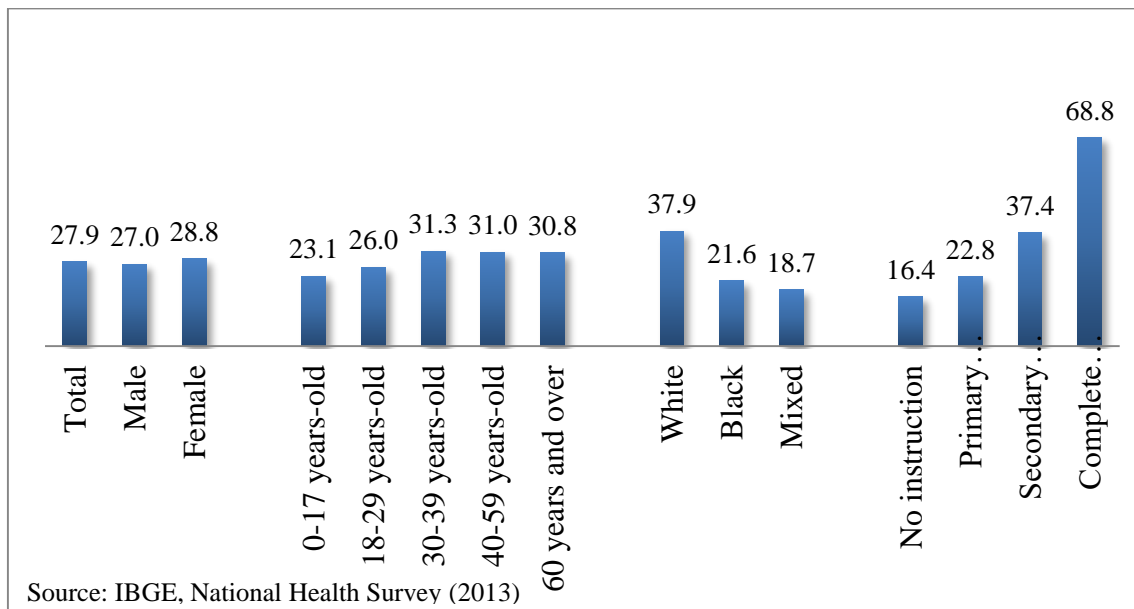
Brazil is host to countless contradictions in the health arena. Despite the availability of universal and unconditional healthcare, the regulation of private plans has moved apace since the 1990s (with a specific regulatory body devoted to the task—the National Health Agency) in a clear trend towards the privatization of the sector, an option only available to those with higher incomes. The Constitution states that the federal, state, and municipal governments should finance healthcare and establishes minimum budgetary shares to be set aside at each level; nevertheless, public expenses at all levels come to 3.7 percent of GDP in total. Table 2 indicates that at the federal level, that percentage barely changed, hovering around 1.5 percent of GDP, from 2003 to 2014. According to studies from the World Health Organization, adequate financing for a system of universal coverage like Brazil’s would call for nearly twice this level (ANFIP 2014). Since total healthcare spending stood at 9.67 percent of GDP in 2013, it is clear that the bulk of it is private (via insurance plans and out-of-pocket costs).

Private spending is stimulated by unlimited tax breaks for the people or companies who can document their healthcare expenses over the course of the fiscal year. According to Ocké-Reis, in 2013, the “state failed to gather BRL 18.3 billion (or USD 8 billion), which represents 23 percent of the BRL 80 billion invested by the Ministry” that year in the sector (2014:263). In terms of tax credit on healthcare, 77 percent went to those in the highest personal income tax bracket (Lavinás and Cordilha 2015), the richest group in the country. This can be explained by subsidies to those who buy private insurance premiums and unlimited compensation for out-of-pocket expenditures.

Per capita healthcare spending in Brazil is close to USD 475 per year (CEBES 2014), a figure that pales in comparison to the average among developed economies (upwards of USD 2,000). This explains why basic medical attention, essential across all income categories, covers just 50 percent of the population (Wagner 2013). The public healthcare system is increasingly perceived as “complementary” and wracked with service deficiencies, primarily utilized by the poor population.

Figure 4, based on data from the 2013 National Health Survey (IBGE 2015), indicates that 28 percent of Brazilians (a figure that oscillates slightly across regions) reported having a private healthcare plan. The unequal access to this kind of coverage is due less to demographic factors such as sex and age and more to stratifying variables such as colour or race (favouring whites over black and brown populations) and education (with coverage of nearly 70 percent among those with college degrees, and under 20 percent among those with no formal schooling), as seen in Figure 4. There are private plans for the few who can afford them, which are mostly whites with higher education.

**Figure 4: Share of Brazilians with Any Private Insurance Plan (Health, Medical or Dental), by Sex, Age Bracket, Race/Colour and Level of Education, 2013 (percent)**



In an attempt to ensure effective care for the most vulnerable portions of the population, the Family Health Programme was established in 1994. The aim of the programme was to alter the model of healthcare provision for the extremely poor population, shifting the focus from universality to preventive medicine and ties with poor communities. The program was initially designed to cover healthcare gaps in Brazil’s Northeast region, the most impoverished in the country. In 2006, the programme was dubbed the Family Health Strategy and became a national strategy for reorganizing basic healthcare service, funded through state government budgets to stimulate its expansion. The Family Health Strategy, however, was unable to successfully reach its target demographic. The programme remains a narrow, tortuous “entryway” into the universal system, with a paltry offering of services designed for the poor. It has failed to provide adequate coverage, assistance or to satisfactorily help usher citizens into the realm of SUS-provided resources—a failure that lies in its inability to offer a wide range of services to the neediest groups (Cruz 2014).

According to the National Health Survey cited above, 53.4 percent of Brazilian households (34.8 million) were registered in a Family Health Unit. Nevertheless, 17.7 percent of them reported never having been visited by a Family Health agent. Basic services still languish in neglect, with SUS’s universality considerably undermined and at stake.

More evidence on the low performance of the Brazilian healthcare system comes from data on the prevalence of tuberculosis. Rates remain extremely high, with 57 [27–99 lower and upper thresholds] reported cases per 100,000 people in 2013 (WHO 2013), as compared to 3–5 (lower and upper thresholds) in developed countries. Likewise, the maternal mortality ratio per 100,000 live births stands at 69 deaths, miles away from the average of three seen in Western economies (WHO 2013). It should be noted that Brazil, when challenged to reduce maternal mortality by 75 percent, did not meet this specific Millennium Development Goal.

### ***Taking stock***

Noteworthy advances have been made in the construction of a social protection system in Brazil, but that progress is shot through with defects and threats to the founding tenets of social security. In terms of advances, one should note the broad coverage provided by

safety net programmes, affecting over 18 million families (between PBF and BPC); the constant, significant increase in the number of contributors to social security systems and the encouragement of new adherents through increasingly flexible rules, thus taking advantage of the demographic dividend and recent growth; and the Social Security Budget, which, if maintained intact, would produce considerable surpluses thanks to the increased formalization of employment and the increase in revenue provided by mass consumption in this latest phase of economic growth.

Stumbling blocks, however, remain. In addition to the increasingly standardized application of conditionalities—discriminatory terms that undercut the rights of citizenship—the most volatile and worrisome area is still healthcare, a sector perpetually confined to the emergency room. The causes include internal problems (on the level of management) as well as those related to the efficacy of allocation (ensuring adequate quantity and quality for an array of healthcare services), though the crucial factor remains underfinancing. Healthcare is the weakest link in the social security chain precisely because it expresses the conflict at its harshest. The market for complementary healthcare is not driven by an increase in demand, but rather by underfinancing in the public arena and the financialization of the sector, “preceded by institutional and rhetorical changes,” as Bahia (2013:73) aptly puts it. The institutional frameworks being forged in the healthcare sector thus oppose and undermine universality and uniformity<sup>19</sup>, both of which were established by the 1988 Constitution (Article 194, item II) as guiding principles behind the creation of SUS.

Over the course of the 2000s, social spending across all spheres of government grew more quickly than in the previous decade. Preliminary estimates indicate that total social spending would have come to around 25 percent of GDP<sup>20</sup> in 2010 (Castro 2013). In this case, the Social Security Budget resources are lumped together with the fiscal budget—the latter responsible for financing education, sanitation, housing, agricultural development and agrarian reform, among others. That percentage, however, seems exceedingly high, considering that the federal government is responsible for the majority of spending.

For the moment, consolidated data are only available for the federal government. At the federal level, Tables 1 and 2 indicate that social spending went from 12.12 percent of GDP in 2003 to 14.48 percent in 2014, following a markedly pro-cyclical bent (with the exception of 2009).

Within this trend, spending on direct cash transfers was privileged over the provision of goods and services. The portion allocated to direct cash transfers remained high over the decade, a total of 80 percent of federal social spending. Other areas of social spending (agricultural development, food and nutrition, housing and city planning and sanitation) took in no more than 1.6 percent of GDP. In other words, just 1/5 of total federal spending went towards universally provided goods and services. Surprisingly, public healthcare, with its crucial distributive effect on growth and inequality, saw no change in spending percentages from 2003 to 2014. This is, in effect, even more evidence that the provision of decommodified public services has been spurned in favour of cash transfers, with not insignificant implications in terms of well-being, equality of opportunity and economic growth.

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19 According to the Brazilian Constitution, the national healthcare system should guarantee uniformity and equivalence in all services and benefits awarded to urban and rural populations (Article 194, item II). Uniformity means that the best quality of services available should be supplied to anyone in the country, irrespective of income or status.

20 A figure very likely to be overestimated, due to double counting.

For economic growth, one remarkable study from IPEA (2010) confirms that social policy has varying multiplier effects on GDP, depending on the category. The study identifies healthcare and education as the areas with the largest multiplier effects on GDP (1.85 and 1.70, respectively), while spending on Bolsa Família had a multiplier of 1.44, BPC came in at 1.38, and the pension benefits distributed via the RGPS just 1.23. Social spending patterns thus produce a variety of effects on growth and redistribution.

One final note may be in order, to observe that education spending is not included in social security, although it is an extremely relevant spending category within social policy—in 2014 it came to 5.7 percent of GDP, with 1.7 percent of that being federal spending and the rest spent at the state and municipal levels.

**Table 2: Brazil, Federal Social Spending (excluding Cash Transfers) as Percent of GDP, 2003 to 2014**

|                                  | 2003  | 2004  | 2005  | .006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Healthcare                       | 1.58  | 1.68  | 1.68  | 1.65  | 1.45  | 1.40  | 1.46  | 1.40  | 1.43  | 1.49  | 1.47  | 1.54  |
| Education                        | 0.83  | 0.74  | 0.75  | 0.72  | 0.69  | 0.71  | 0.85  | 0.98  | 0.99  | 1.11  | 1.22  | 1.32  |
| Sanitation                       | 0.00  | 0,00  | 0.00  | 0.00  | 0.00  | 0.02  | 0.03  | 0.01  | 0.01  | 0.02  | 0.01  | 0.01  |
| Others*                          | 0.21  | 0.34  | 0.46  | 0.47  | 0.27  | 0.22  | 0.23  | 0.22  | 0.17  | 0.16  | 0.17  | 0.18  |
| <b>Total</b>                     | 2.62  | 2.77  | 2.89  | 2.84  | 2.42  | 2.34  | 2.57  | 2.62  | 2.60  | 2.78  | 2.87  | 3.06  |
| <b>Federal Social Spending**</b> | 12.12 | 12.47 | 12.88 | 13.23 | 12.62 | 12.24 | 13.12 | 12.78 | 12.64 | 13.29 | 13.93 | 14,48 |

\*Culture, citizenship rights, city planning, housing, environmental administration, agrarian organization, and sports and leisure.

\*\*Social assistance, social welfare, labour and functions of social spending, excluding cash transfers (contributory or noncontributory).

Source: SIAFI - STN. (Incurred and validated federal expenses) and IBGE (SGS/BACEN).

## The Macroeconomics of Inclusion via Consumption

This section aims to describe the link between economic and social policy during recent cycles of economic growth or slowdown, so as to clarify the role that the social protection system is called upon to play.

### ***The covenant for growth”: social policy off the radar (1950-1980)***

From 1950 to 1980, Brazil underwent its first developmentalist phase, bolstered by a “covenant for growth” (Castro 1993) assiduously followed by democratic regimes, but by authoritarian ones in particular. These years saw GDP growth of 7.4 percent per annum and impressive productivity gains through state-led industrialization, profoundly transforming the country’s production structure. This pushed GDP per capita to its highest annual rates of expansion, around 4.5 percent per annum (Bielschowsky and Mussi 2013). In subsequent decades, neither indicator would replicate that performance, as both fell significantly.

Throughout the period, social protection was limited almost exclusively to contributory social security, which was attainable for the ascendant urban proletariat (ballasted by industrialization), and to those in the professional middle class (mainly civil servants) aspiring towards a better quality of life. This citizenship, “regulated” (Dos Santos 1979) by formal employment, effectively cut down on social security coverage, estimated to reach around 43.7 percent of the working population in the 1970s (Fleury 2002:48). In 1980, public social spending stood at near 14 percent of GDP (Cominetti and Ruiz 1998).

As Claudio Dedecca has argued, the absence of social policies that might provide the foundations for solid economic growth in this period largely led to the segmentation of

the Brazilian labour market, characterized by high levels of informality and by an excess of labour, factors that were apparently responsible for the “wretched income distribution associated to that development process” (2005:101).

Such characteristics on their own point to the fragile, nearly nonexistent link between social and economic policy, a state of affairs that stood throughout the first wave of developmentalism (Lavinás and Simões forthcoming). Under the state-led industrialization process (Bertola and Ocampo 2012), that social protection system—incomplete and highly segmented—demonstrated its ability to facilitate the expansion of the domestic consumer market among elites and the new working class, clinging, on the margin, to the coattails of the “economic miracle.”<sup>21</sup> There were no institutional mechanisms in place for poverty mitigation. As Lo Vuolo (2015) recalls in the case of Latin America—an observation that stands for Brazil individually as well—“the social protection system included neither unemployment insurance nor huge income transfer policies for the working poor” (44). Hindered by the massive presence of informality, public provision was restricted to basic and higher education, with the latter only available to a small cohort of students from the new upper-middle classes.

The external debt crisis halted this trajectory of conservative modernization—so dubbed by virtue of its having revolutionized the sphere of production, fostering a dynamic and diversified domestic industrial sector.<sup>22</sup> The social structure and standing concentrations of wealth and property remained intact, however, tending to worsen. It is true that the years of the “economic miracle” saw a sharp downturn in poverty indicators, especially in the countryside (Rocha 2003), given the rise in average income spurred by high growth rates. That said, inequalities were exacerbated by the absence of redistributive social policies or a tax system committed to fiscal justice.

### ***The “liberal covenant”: social security thwarted (1981-2003)***

Over the years of the so-called “covenant for stabilization”—also known as the “liberal covenant” (Erber 2010)—which cover the last two decades of the 20<sup>th</sup> century, the country underwent persistent economic instability, with a mixture of high inflation (through 1994), unemployment, and sluggish growth (two percent annually). Swimming against the tide and defying the dominant neoliberal logic, which was bent on curtailing rights, social security was instituted and enshrined as one of the most noteworthy results of the consolidation of Brazilian democracy.

The tensions between the demands of the new social protection system and the liberal economic precepts of the pro-market Washington Consensus, backed by an orthodox macroeconomic policy, were quick to emerge. Access to the new rights guaranteed by the Constitution had to be regulated. Not only had the social security system’s base of contributors expanded (capturing new social groups), but it now incorporated a universal, unconditional element (healthcare), and, for the first time, the poor and the neediest were guaranteed monetary safety nets (social assistance). This meant that “spending on social security came to drive aggregate demand and hence production, employment, and income levels” (Gentil 2013:1).

Macroeconomic orthodoxy, however, hampered the possibilities of expansion for spending opened by the broad, newly universal institutional framework around social

21 As is well known, Brazil experienced a short period of huge economic growth from the mid-60s to the early 70s, notching up an annual growth rate of 11 percent, on average.

22 As Gentil (2013:15) points out, “the industrialization process was interrupted before the industrial structure reached maturity”, hobbling attempts to overcome the structural heterogeneity that still characterizes Brazil’s social and productive bases.



policy. The first mechanisms for cutting spending, in the name of building a primary fiscal surplus, date from this period. In 1994, 20 percent of gross revenue (except for contributions to social insurance) was removed from the Social Security Budget, largely affecting the coverage and quality of the universal healthcare system. This confiscation of funds, a system of savings imposed by the federal government, ultimately inhibits the program's potential for growth and strengthens the logic of privatization.

The contractionary fiscal policy in place from 1994 to 2003 fettered promises for greater equity and kept the growth of public spending on a tight lead. This worked to obstruct the implementation of the new institutional framework around social security; instead, there emerged myriad short-lived, low-cost initiatives, befitting an economic policy averse to counter-cyclical interventions.

Throughout the orthodox management of the Cardoso administration (1995-2002), social policy favoured compensatory measures characterized by low efficacy and high inefficiency, targeting severe food insecurity among the poorest population. PRODEA, the largest federal social program in the late 1990s, simply distributed food baskets<sup>23</sup> that only partially covered the nutritional deficit of the target population. The economic stabilization brought by the Real Plan, in “tying rises in income to a reduction of prices on basic food staples, worked favourably towards increasing nutritional accessibility for the most disadvantaged groups in terms of income distribution” (Lavinás and Garcia 2004:240), although it failed to completely and definitively eliminate food insecurity for tens of millions of Brazilians.

Another front for intervention in the social arena at the time was the Programa Comunidade Solidária (Community Solidarity Program), which provided a scattered, one-off allocation of meager financial resources in the attempt to encourage local job- and income creation initiatives. Such measures drew inspiration from the neoliberal paradigm in vogue at the time, favouring work over protection—“public support for private responsibility,” in Gilbert's concise formulation (2004:43). Rather than rights, under this new rationale, people are concerned with entitlements whose access will be guaranteed provided they make an effort to fulfill their obligations, which are now marketed as the “freedom to make choices.” Moreover, the emphasis on self-responsibility is legitimized as a form of social regulation, renewing practices that prevailed in times where inequality was tolerated and justified as a result of different levels of rewards determined by different levels of individual effort and labour (Lavinás 2013a).

The fiscal space given to social policy was residual during this period, then, given the prevailing macroeconomic mindset and its commitment to a minimal state. The country was subject to extreme external vulnerability, exposed to trade deficits and growing foreign debt. The public budget was dominated by interest payments on the public debt (around 4.8 percent of GDP in 2013). Inflation, moreover, remained the key problem on the agenda, to be controlled by heavily contractionary monetary policy and by belt-tightening in terms of public spending and investments. The conservative management of economic policy made it impossible for the new institutional framework around social security to occupy an effective position as an instrument for reducing inequities and stimulating aggregate demand, working counter-cyclically.

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<sup>23</sup> Over the course of the year 1998, the federal government distributed around 28 million food baskets, containing essentially five products: beans, rice, manioc flour, cornflakes and noodles. Analysis by Lavinás and Garcia (2004:97) indicates that the nutritional value of the basket came to no more than 555 calories per capita/day.

It is true that the minimum wage would see real gains starting in 1994, though very modestly. Needless to say, over this long period of relative stagnation, social policy had nearly no impact in reducing inequalities. The lessening of poverty indices can be traced in large measure to the control of inflation (Lavinás and García 2004). Social infrastructure remained neglected and deficient, reproducing severe deficiencies and exacerbating disparities. Tax policy, meanwhile, geared towards crisis management (Bielschowsky and Mussi 2013), was off the table in terms of any coordinated strategy for addressing social ills.

### ***The “covenant for growth with mass consumption”: social policy as collateral (2004-2014)***

A favourable external environment finally gave rise to a new phase of growth, aligned to a different sort of developmentalist covenant. We have dubbed it a “covenant for growth with mass consumption.”<sup>24</sup>

In terms of external factors, Chinese demand for commodities, amidst increased global financialization and the vigorous expansion of global commerce, would radically alter the domestic context. External vulnerability would shrink thanks to a substantial bump in international reserves,<sup>25</sup> the price of which being a return to a focus on raw materials among Brazil’s exports.<sup>26</sup> The external commodity boom<sup>27</sup> had other serious implications, overvaluing the currency and steadily leading to an imbalance of payments via the incentive to import. Imports, for that matter, invigorated mass consumption by meeting internal demand for which supply was neither sufficient nor satisfactory.

From 2004 to 2010, GDP would return to higher rates of growth (an average of 4.4 percent per annum), this time backed by an unprecedented strategy<sup>28</sup> of economic expansion. This model would turn to social policy, via new complementarities, in order to boost the dynamism of the internal market, galvanizing demand so as to spur on a cycle of growth.

The novelty of this strategy came in a hitherto-spurned move to coordinate macroeconomics and social policy.

On one side, structural elements of social policy would be put into action to ballast the increase in aggregate demand. The most important of these was the real increase in the minimum wage,<sup>29</sup> unquestionably the most efficient of the mechanisms for social regulation—it exerts a stunning redistributive impact as growth leads to the creation of millions of jobs. The shift was made possible by a new indexation rule, introduced in

24 We have not adopted the designation “growth with social inclusion,” as employed by some: the description seems inaccurate, since this phase has brought more of an accentuated incorporation into the market than long-term inclusion per se, as will be shown at length in the paper.

25 Reserves rose from USD 20.5 billion in 2003 to USD 288.6 billion in 2010 and USD 374 billion in 2014, according to the Brazilian Central Bank.

26 In 1994, commodities represented 25.4 percent of Brazil’s foreign trade; by 2014, that figure would rise to 48.7 percent (FUNCEXDATA 2016).

27 Also fed by the massive entry of external capital, drawn by a base interest rate spread significantly higher than the international average.

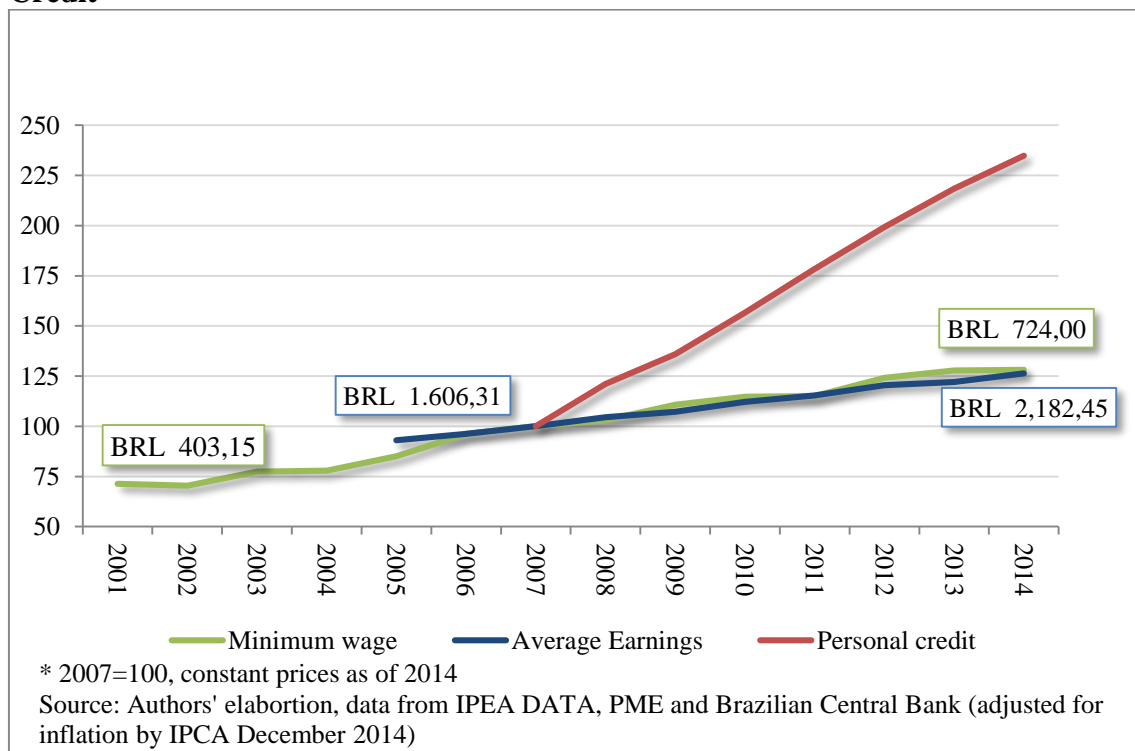
28 Bielschowsky (2012:10) points out that this strategy was intentionally formulated during Luiz Inácio Lula da Silva’s 2002 presidential campaign and highlighted by the newly elected administration in the 2004-2007 Pluriannual Plan as approved in 2003, at the start of the president’s term. There can be no doubt, however, that the strategy was made possible given the extremely favourable international context as described above.

29 The Brazilian minimum wage was introduced in 1939 under the Vargas government. It was lauded for introducing working regulations and strengthening social security for certain categories of workers. Between the mid-1960s and the early 1990s it went through a process of severe depreciation. This downward trend was reversed in 1994. Moreover, since 2003, this recovery of the minimum wage has intensified, a period that corresponds to both of President Luiz Inácio Lula da Silva’s terms (2003 to 2010), as well as the Dilma Rousseff administration to date (2011-2014 and 2015-). As the minimum wage is adopted nationally and serves as a reference for informal sector earnings as well, one of the main consequences of this new positive trend has been the decline of regional inequalities across the country.

2008 under Lula, a truly innovation: the minimum wage is indexed to changes in the consumer price index to adjust for inflation relative to the previous year, which then incorporates the economic growth rate reached two years previously. This rule thus not only guarantees the purchasing power of the minimum wage but also grants real increases according to the pace of growth.

Beyond defining the minimum remuneration for formal employment, the minimum wage exerts influence in other arenas. It is also linked to the minimum value for retirement plans and pensions in Brazil, as well as to the (assistance-based) BPC safety net, as laid out in the Constitution. In 2013, two-thirds of all retirement benefits and pensions—the equivalent of 18 million out of a total of 26.8 million beneficiaries (MPS 2014)—doled out one minimum wage. The 4.2 million BPC packages paid out monthly to income-deficient disabled people or senior citizens come in the same amount. And around 7 million unemployment insurance benefits were pegged at the minimum wage. One can thus estimate the impact of a political decision (since the minimum wage is a political price), leading to a real increase on the order of around 80 percent from 2004 to 2014, as seen in Figure 5—well above average labour income, as plotted on the same figure.

**Figure 5: Brazil, Growth Rate of Minimum Wage, Average Earnings and Consumer Credit\***



Furthermore, one should note that 84 percent of the formal jobs<sup>30</sup> created during this phase of economic recovery provided salaries of only up to two minimum wages (Lavinás et al. 2014). It demonstrates clearly how the minimum wage was key in boosting demand, serving as the backbone for the transition to a society of mass consumption. This figure reflects another structural problem for the Brazilian economy: though formal, occupations with salaries at such low levels indicate the persistence of extreme heterogeneity on the job market.

30 RAIS estimates the net creation of formal jobs from 2003-2013 at 21 million.

More jobs and rising labour income (reporting a real increase of around 35 percent from 2003 to 2013, as shown in Figure 5) led to an expansion in workers' contribution to GDP, revealing the growing importance of total wages as a part of the national product. From 2000 to 2013—the last year in the series available from the Brazilian Institute of Geography and Statistics (IBGE)'s National Accounts System—total wages went from 39.1 percent to 43.1 percent of GDP (IBGE-CONAC 2014), which is still a low figure. In parallel, welfare coverage for the working population (ages 16–60) swelled, crossing the 70 percent mark for the first time in 2012 (as compared to 62.5 percent in 2004).

Another initiative designed to stimulate demand, boosting sales on the domestic market, came via an extension of anti-poverty programs, incorporating new groups beyond senior citizens and the disabled (BPC's target) poor. As explained in the previous section, the Lula administration created Bolsa Família in 2004, with annual spending equivalent to 0.5 percent of GDP (2014). For the first time in history, some tens of millions of people with an extraordinary propensity to consume were provided a minimum survival wage that ushered them into the market.

Despite its remarkable coverage and effects, in January 2015 the minimum wage stood at approximately USD 270 per month (or BRL 788), a low sum from an international perspective and indeed for Brazil.<sup>31</sup> Similarly, although over 14 million families were covered by Bolsa Família, the average value of assistance benefits in 2015 stood BRL 167 (around USD 50) per family per month. It seems clear that a minimum wage and social benefits alone are not enough to feed a long-term cycle of growth and leave the economy functioning at its maximum potential for the foreseeable future.

Mass consumption as a front for expansion in this new developmentalist period lacked ballast. Social engineering limited itself to opening access to the financial markets for groups without collateral. In place of the microfinancing programs cropping up across developing countries (Soares 2014), which had no great effect on aggregate demand, the novelty of the social developmentalist model was its having instituted a rare connection between credit on one hand and salaries and benefits on the other, with the state as a guarantor in the case of government benefits.

### ***The functionality of social policy as collateral in access to credit***

This arrangement between social and economic policy gave rise to a “social model” in which social benefits (both contributory and noncontributory) and formal employment would become the key to consumer credit, under certain conditions. These were the ingredients in the “magic formula” for implementing a catching-up strategy (Lavinás 2015), boosting credit as a share of GDP from 23 percent in 2003 to 58 percent in 2014.

The most significant factor in contributing to economic growth was household consumption, which was responsible for approximately 61 percent of GDP over the period 2003–2014. Gross fixed capital formation (GFCF), meanwhile, stood at an annual average of around 20 percent. Exports showed a steady decline, falling from 15 percent during the first phase of the cycle to 11.5 percent of GDP in 2014, for an average of 13 percent.

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<sup>31</sup> Within Latin America, Argentina, Uruguay, and even Ecuador boast minimum wages that, when converted to the dollar, far outstrip Brazil's. The same is true for other countries with middling incomes.  
<https://www.quandl.com/collections/economics/minimum-wage-by-country>.

The key point here is that in terms of aggregate demand, the most important variable was household consumption. Its centrality stemmed not only from the elevation of salaries and labour income, but also from households' steep slide into debt. The core of this strategy was thus market incorporation via growth with debt, sidestepping persistent, divisive obstacles such as the country's productive and social heterogeneity (Lavinás and Simões 2015), the regressive nature of its tax system, and the paltry redistributive efficacy of social spending, given its failure to provide decommodified public goods.

Institutional changes were evidently called for in order to ensure the success of the strategy, the most significant of them being the creation of new financial instruments. This framework would grow out of the creation of consigned credit in 2003, providing priority access to credit lines with less abusive interest rates for civil servants and the formally employed—albeit with mandatory discounts. In 2004, consigned credit was made available to retirees and pensioners.<sup>32</sup> The average interest rate for these lines, although below market values, is quite high: in 2014 it oscillated around 26-30 percent, as opposed to 80 percent for free personal consumer credit (BACEN 2015), with inflation for the year at 6.4 percent. Although debt repayments were mandatory, automatic, and managed by the financial sector itself—with no moral hazard—real interest rates on consigned credit remained prohibitive.

This trend spread quickly, and by the end of 2014 the level of household indebtedness<sup>33</sup> came to 46 percent as compared to 18 percent in early 2005 (BACEN 2015). Although at lower fee levels than in the past, interest rates in Brazil remain extremely costly, especially for consumption goods in the short run. The annual average nominal interest rate for individual consumer credit reached 140 percent in December 2015 (with an inflation rate of 10.67 percent). Under this new fiscal adjustment, interest rates continue to reach new heights (ANEFAC 2015).

The first year of the Lula administration also brought the regulation of microcredit. From 2003, the year in which the category of credit was officially created, to 2007, 90 percent of all such loans were put towards financing consumption (BACEN 2011). That figure fell slowly from 2013 onward, in the wake of a law stating that 80 percent of those eligible for microcredit loans should put that credit towards productive activities, not subsistence. In December 2010, however, consumption still accounted for 67 percent of all applications.

The vision that emerges is of a well-orchestrated strategy for expanding instruments of access to credit markets, aimed mainly at sectors with little purchasing power and the most vulnerable in society, heretofore excluded from said markets.

The logic of financial inclusion would spread to the beneficiaries of Bolsa Família through the Banking Inclusion Project (BIP) in 2008. The program attempted to bring new financial mechanisms and services to the targets of the large poverty-fighting program. At first the project only covered the opening of simplified bank accounts, and spread quickly. Soon it expanded to include cards for purchases on credit and other

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32 Consigned or payroll loans for workers covered under the CLT (Consolidated Labor Laws) was introduced by Bill 10820 on 17 December 2003, under the Lula administration. Shortly thereafter, in September 2004, Bill 10953 altered the preceding piece of legislation, extending the same to retirees and pensioners registered in the INSS (National Social Security Institute). This meant that the implementation of consigned credit initially favoured those two groups (civil servants and workers covered by the CLT). The so-called "Personal Loan with Paycheck Discount" quickly took over retail banking across the country, open to those with stable, practically risk-free employment and those in civil service. A year later, it would come to retirees and pensioners, regulated by the INSS.

33 This estimate is made using "full income" and not "disposable income". The true level of household indebtedness is then underestimated.

services and products.<sup>34</sup> The fact that just 2 million families out of the 14 million registered as Bolsa Família recipients enrolled in the BIP indicates that condition or price exclusion, or perhaps opt-outs, put a damper on the interest of those most vulnerable to the financial market. Even so, financing for the acquisition of durable consumer goods was extended significantly to the neediest.

Two important indicators reflect the success of this strategy oriented towards boosting mass consumption. The first is the explosion of retail sales, which more than doubled from 2003 to 2014, according to the IBGE's Monthly Commerce Survey. Second is the fact that household consumption, as previously said, rose to around 60 percent of GDP and remained there throughout the period in question (Gentil and Hermann 2015), constituting the most important factor by far in the expansion of GDP. Figure 5 shows that the growth rate of personal consumer credit has been far higher than that of average earnings.

This strategy would lead to an increase in household indebtedness. According to the Central Bank (2015), debt to the financial sector as a percentage of household income ballooned from 18.3 percent in early 2005 to nearly 50 percent in late 2014. The trend has remained solid, thanks to the constant rise in Brazil's basic interest rate, which has reclaimed its place as the most burdensome of its kind in the world.<sup>35</sup>

The industrial sector failed to catch up as expected, however. Structural obstacles within the manufacturing sector remained, with slipping productivity levels. These were compensated by an impressive increase in the importation of durable goods, driven on by an appreciated exchange rate. Medeiros (2015:119-120), in analysing the recent evolution of consumption patterns in the Brazilian economy, notes that from 2003-2010, the domestic sector with the most accentuated growth rate, out of a total of 22 categories, was financial intermediation (8.4 percent per annum, on average), closely followed by household appliances (an average of 7.8 percent per annum). A comparison of domestic versus import consumption, however, reveals that the average growth rate on imported household appliances far outstripped domestic equivalents and was the highest across all sectors analysed, at 33.8 percent per annum. With this in mind, one should recognize that the expansive potential of public spending was limited by the behavior of imports, hampering its multiplier effect on the national economy.

This means that the virtuous linkage between social and economic policy, wrought in the hopes of producing structural changes and fostering greater homogeneity across society and economy alike, overcoming asymmetries and imbalances, did not meet expectations. One of the factors heavily implicated in that failure, within said "growth regime," was the nature of public spending, which was put almost exclusively<sup>36</sup> towards cash transfers, to the detriment of spending in kind or social investment.

Public investment towards the expansion and modernization of social and urban infrastructure (especially in the areas of sanitation, healthcare and education) was particularly low during the 2000s, as seen in Table 3, despite this being the type of spending most likely to generate positive effects for private investment, given its links to other manufacturing sectors. The strategy of privileging cash transfers over social

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34 In theory, Bolsa Família beneficiaries should have access to housing credit, loans in general, life insurance, capitalization, and savings. With the exception of the latter, which reached 2.3 percent of the families under the program, these services and mechanisms had affected no more than 0.3 percent of them as of 2010. Participation, then, was clearly quite low.

35 In December 2015, the SELIC rate stood at 14.25 percent (BACEN 2015).

36 See Table 3.

investment in the form of decommodified services thus represented a missed opportunity to bring about changes in the production structure and positively affect the education and training of the workforce (thereby improving work productivity). With these effects disregarded by macroeconomic policy, social spending was unable to perform one of its most important functions: serving as a special kind of public investment designed to equalize access and opportunities and, in the middle term, to increase the productive capacity of the economy. Social policy was hamstrung, stripped of its ability to drive development with structural transformation.

**Table 3: Federal Social Spending<sup>1</sup>—Select Items, Annual Averages by Period as Percent of GDP (2003-2014)**

| <b>Period</b> | <b>Social Assistance</b> | <b>Social Insurance<sup>2</sup></b> | <b>Healthcare</b> | <b>Education</b> | <b>Sanitation</b> |
|---------------|--------------------------|-------------------------------------|-------------------|------------------|-------------------|
| 2003-06       | 0.7                      | 8.6                                 | 1.7               | 0.7              | 0.00              |
| 2007-10       | 1.0                      | 8.5                                 | 1.5               | 0.8              | 0.02              |
| 2011-14       | 1.2                      | 8.6                                 | 1.5               | 1.2              | 0.01              |

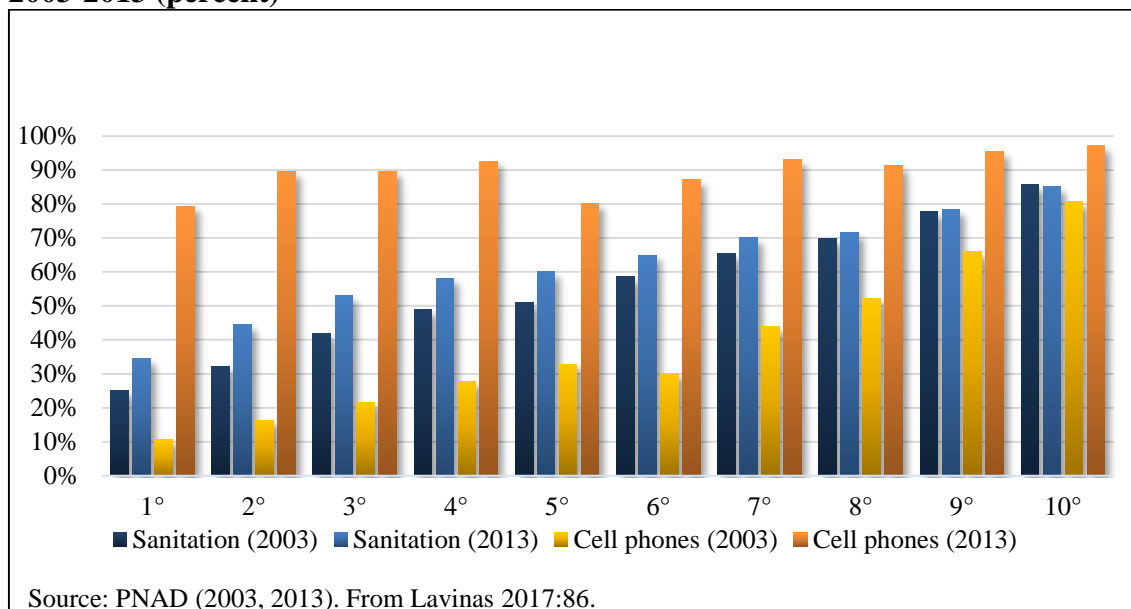
(1) Settled expenses. Growth rate figures at 2014 constant prices.

(2) Includes spending on the General Social Welfare Policy (RGPS) and the Special Social Welfare Policy for Civil Servants (RPPS).

Source: Authors' elaboration based on data from SIAFI - STN and Ministério da Fazenda.

Moreover, a possible drop in prices and/or inflation, a consequence of increased productivity and subsequent cost reduction, would have been beneficial for all. Unfortunately, over the last 20 years, labour productivity has increased by around 1 percent per year (De Negri and Cavalcanti 2014). An increase in productivity might also have exerted an indirect beneficial effect on the functional distribution of income. The higher the productivity, the greater the space for wage increases without subsequent price increases, especially in the service industry.

Spending on basic sanitation is an illustrative example, in a country where glaring deficiencies in sewage and treated water system cause recurring ailments that compromise the health of the most disadvantaged in society. The provision of this social infrastructure was not among the government's strategic priorities. From 2003 to 2010, investment in the area was trifling, less than or equal to 0.01 percent of GDP per year (Table 3). It is no coincidence that basic sanitation is a public good concentrated in higher income brackets. Low income households have huge adequate sanitation deficits. Figure 6 shows the starkly unequal distribution of basic sanitation by income deciles. It is evident that the provision of sanitation among the poorest households barely improved over the course of a decade. Accessibility gaps between income levels are striking. The ownership of cell phones, meanwhile, driven by consumer credit, became nearly universal across all income groups. The same was observed with other sorts of durable goods, including refrigerators, flat-screen televisions and the like.

**Figure 6: Brazil: Access to Adequate Sanitation and Cell Phones, by Income Deciles, 2003-2013 (percent)**

The profile of (low) spending on healthcare and education, hardly the reflection of a situation-based fiscal adjustment, was primarily the product of laws and mechanisms that reduced state action and stimulated the participation of the private sector. Expenses on both fronts were seen to shrink. When measured as a share of GDP, federal spending on healthcare remained frozen at 1.5 percent from 2007 to 2013, slightly below the space it had occupied in the early 2000s (Table 3). While the central government’s spending on education expanded, they did so at an extremely low level—0.7 percent of GDP on average from 2003-2006, rising to just 0.8 percent of GDP from 2007-2010.<sup>37</sup>

The march of privatization across the offering of these services has taken in everything from mechanisms that place public assets at the service of the private sector to incentives (mainly tax breaks) for companies, including the proliferation of private health insurance plans and college loans and financing for students at private institutions.<sup>38</sup> Fiscal policy has consolidated a market-driven strategy, ultimately to the detriment of public policies. The primary budget surplus of the consolidated public sector reached the impressive mark of 3.5 percent of GDP over the period 2003-2006, and 2.9 percent from 2007-2010.

We agree with Lo Vuolo (2015) when he states that “universal and unconditional health care and education not only help to create productive employment, but are also central to promoting social mobility, mitigating income inequalities, and fortifying the social cohesion and sense of trust that facilitate high productivity” (48). Social developmentalists in Brazil disregarded this fundamental postulate.

37 It must be made clear that the responsibility for 80 percent of education spending falls to the states and municipalities, which receive transfers from the federal government toward that end, as well as having to invest their own funds.

38 It should be noted here that, according to the INEP (National Institute for Educational Studies and Research), affiliated to the Ministry of Education, 75 percent of college students in Brazil were enrolled at private institutions of higher learning in 2014, up from 2000 (72 percent). The vast majority of these universities perform quite poorly in comparison to their public counterparts, taking the worst spots in educational rankings. Access to private universities is mediated by extensive financing programs for public-school graduates with per capita household income below two minimum wages per month. FIES (the Student Financing Fund) charges interest rates of 6.5 percent p.a., and payments can be distributed over 15 years. Another program that provides access to public universities (the best in the country) is SISU (the Unified Selection System), whereby students can guarantee a spot in a public institution based on their performance on an exam taken at the end of high school (the ENEM). One of the ambiguities of public policy in terms of access to universities is the fact that the government finances private schooling through full tax breaks (for institutions considered non-profits) and offers educational credit lines to low-income youths.



## “Growth with Redistribution”: A Covenant Aborted

Signs that coordination between economic and social policy would not lead to a long-term phase of growth were quickly evident, challenging the state’s social developmentalism. The distributive development model (Bastos 2012; Carneiro 2012) had already pointed to the exhaustion of the model anchored in household consumption and subsequent indebtedness, indicating spending in infrastructure (investment) as the new autonomous element with which to foment growth.

Some, however, believed that a cycle of growth driven by mass consumption would be sufficient to encourage social cohesion, since “the vast majority of the population will tend to benefit” (Bielschowsky 2012:737). If only. The connection between consumption and cohesion across social groups appears to be emphatically refuted by a survey conducted in late 2012 among adults (over age 16). The results indicated that Brazilians generally favoured state intervention in the reduction of poverty and inequality, but showed no support for universal public services, nor did they believe that “cooperation and support for the needy constitute (...) inalienable rights to be guaranteed, set apart from any other criterion”. This denotes “a society,” in the words of the authors (Lavinás, Cobo et al. 2014:136), “in which existing social preferences indicate low levels of social cohesion and solidarity.” Those preferences reflect a pattern of conditional, restricted redistribution, far from any ideal of equality or convergence. In terms of social cohesion and the building of the foundations of a more egalitarian society, the picture remained rather bleak.

A change in the external economic environment in 2011, including deflated commodity prices, heralded the slowdown of economic activity. The first symptom was a drop in the growth rate, amidst a clearly deteriorating international scene.<sup>39</sup> Table 4 indicates the petering out of the pattern of growth via mass consumption. GDP slumps at increasingly sluggish rates from 2011-2014; household consumption slows down abruptly, from an annual growth rate of 4.9 percent in 2011 to just 0.9 percent in 2014; investments registered negative growth, at -0.6 percent and -4.4 percent in 2012 and 2014, respectively, and exports slid dramatically over the same period.

**Table 4: Real Growth by GDP Component**

| Period | GDP | Real Growth (percent per annum) |            |      |         |         |
|--------|-----|---------------------------------|------------|------|---------|---------|
|        |     | Consumption                     |            | FBCF | Exports | Imports |
|        |     | Households                      | Government |      |         |         |
| 2011   | 3.9 | 4.8                             | 2.2        | 6.6  | 4.8     | 9.4     |
| 2012   | 1.8 | 3.9                             | 3.2        | -0.6 | 0.5     | 0.7     |
| 2013   | 2.7 | 2.9                             | 2.2        | 6.1  | 2.1     | 7.6     |
| 2014   | 0.1 | 0.9                             | 1.3        | -4.4 | -1.1    | -1.0    |

Source: IBGE, National Accounts, reference 2010. Accessed: April 2015.  
 Constant Prices of 2014.

On the other hand, the expansionist fiscal policy from the previous period no longer produced spill-over effects—not only had they been neutralized by the constant, considerable increase in imports of durable and nondurable consumer goods (Gentil and Hermann 2015b), but households’ persistently high debts to the financial market also

<sup>39</sup> According to the IMF, the growth rate for the global economy fell from 5.2 percent in 2010 to 3.9 percent in 2011, 3.2 percent in 2012 and 2.9 percent in 2013.

made for another draining effect, reducing the amount of income available for consumption in favour of financial rents (Lavinás 2015).

Investments had to be leveraged. This need, however, would run up against the structure of social spending which, resting primarily on cash transfers (Lavinás 2007, 2013b, 2014), serving to stimulate a model of mass consumption and acting as a nearly standalone multiplier alongside credit, served to hamper public investment (given the growing commodification of an array of public services and the targets set by the primary budget surplus). The very same pattern of social spending would abort the transition to what might have been a virtuous cycle of growth with increased work productivity and positive consequences for salaries and production, promoting a new pattern of redistribution. The latter, however, was never solidly anchored as a goal in and of itself, which might have leveraged public investment through the decommodification of public services and subsequent tax reform.

Public investment grew at considerable rates over the period 2007-2010. However, from 2011-2014 (Table 5) it behaved erratically, with drastic contraction and expansion on alternating years. This led to a brutal drop in the average growth rate for the period—just 0.7 percent per annum, much lower than the corresponding rate for 2004-2010 (3.5 percent)—which put a damper on the private sector’s interest in crowding-in strategies (Gentil and Hermann 2015b). Federal public investment saw significant expansion only in 2014 (16.6 percent), an election year that marked the conclusion of important construction projects for the World Cup. This type of spending remained stable at extremely low levels in terms of its share of GDP—around 1 percent—from 2011-14, given the massive infrastructure shortfalls accumulated over the course of decades in Brazil, demonstrating the government’s inability to forge a growth policy led by public investment.

**Table 5: Central Government—Selected Expenses (2011-2014)**

| <b>Central Government – Selected Expenses</b> |                               |             |                               |             |                             |
|---|-------------------------------|-------------|-------------------------------|-------------|-----------------------------|
| <b>2011-2014</b>                              |                               |             |                               |             |                             |
| <b>Year</b>                                   | <b>Defrayal</b>               |             | <b>Investment<sup>2</sup></b> |             | <b>Interest<sup>3</sup></b> |
|   | <b>Real</b>                   | <b>% of</b> | <b>Real</b>                   | <b>% of</b> | <b>% of</b>                 |
|   | <b>Growth (%)<sup>1</sup></b> | <b>GDP</b>  | <b>Growth (%)<sup>1</sup></b> | <b>GDP</b>  | <b>GDP</b>                  |
| 2011  | 0.7                           | 7.6         | -10.7                         | 1.0         | 4.4                         |
| 2012  | 3.2                           | 7.8         | 3.5                           | 1.1         | 3.4                         |
| 2013  | 7.8                           | 8.1         | -4.4                          | 1.0         | 3.8                         |
| 2014  | 6.3                           | 8.6         | 16.6                          | 1.1         | 4.9                         |

(1) Deflator: IGP-DI for investments and IPCA for expenditures and interest rates, at 2014 prices.

(2) Includes spending on Minha Casa Minha Vida (MCMV).

(3) Nominal interest rates on the public federal debt.

Source: Authors’ elaboration from Ministério da Fazenda, Secretaria de Política Econômica e Anuário Estatístico.

To compensate for the absence of structural changes in the productive and social base (weaknesses ignored in the phase of recent prosperity), the government has adopted localized fiscal measures meant to offset for the loss of competitiveness in the Brazilian industrial sector, domestically and abroad, in the extreme short term. A large bundle of tax waivers was introduced in 2011 with the aim of stimulating investment in the private sector and alleviating weaknesses of Brazilian industry, focused on cutting labor costs. Promising counter-cyclical measures envisioned at one point in time, such as a reduction

in the Central Bank prime rate (2011-12), were abandoned. Instead of stimulating aggregate demand via a more counter-cyclical macroeconomic policy, the government caved to a policy of reduced spending, favouring capital with tax exemptions. As expected, private investment did not recover.

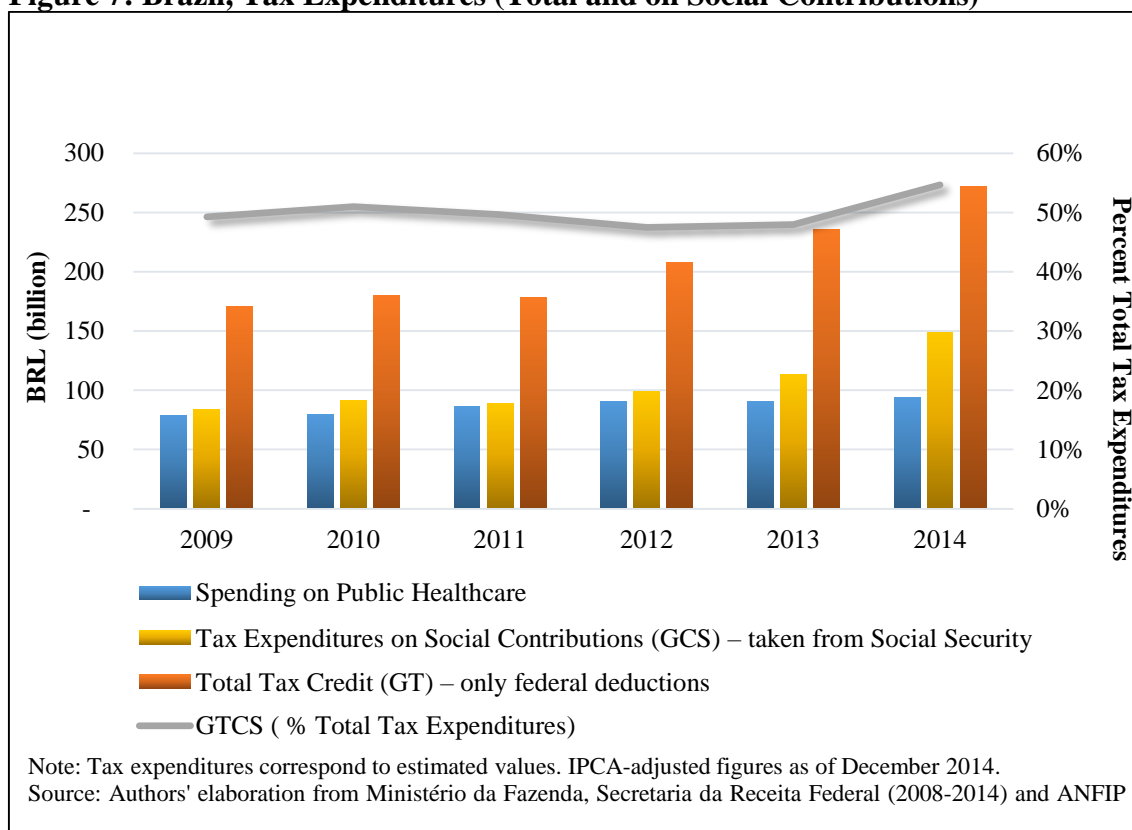
The tax breaks in question were many and varied. Payroll tax cuts would take center stage as of 2012, seeking to reduce labour and capital costs, with immediate negative effects on the Social Security Budget. At the beginning, this policy only affected four specific manufacturing sectors,<sup>40</sup> with an estimated revenue loss of BRL 4 billion or USD 1.482 billion (2014 values) in 2012. Eventually, however, it would spread across 56 sectors<sup>41</sup> in just three years, becoming permanent and racking up total waivers estimated at BRL 22bn (USD 6.2 bn) in 2015—a more than 400 percent increase in annual revenue loss (Cordilha 2015). By law, the federal government is obliged to provide compensation to the General Social Insurance Fund (the public system) equivalent to the reduced contributory revenues (from capital) because of tax exemptions. In practice, these compensatory payments tend to be delayed and almost always fall short of total waivers (ANFIP 2014:68; Cordilha 2015).

The Social Security Budget, poised to help boost investments through universal policies, thus has its revenue base compromised and cannot adequately finance public goods and services. While the DRU continues to drain the Budget's resources on a remarkable scale, those losses are aggravated by payroll tax breaks, which relieve capital from the responsibility to finance social security. The institutional framework of the system is crippled. Figure 7 lays out the impressive figures for the years 2009-2014. If we add in other tax expenditures to this figure—subsidies for the private sector—it becomes clear that waivers such as these grew at a significantly quicker rate than public spending on healthcare, for instance. The same is the case with the deductions that suck funds away from the Social Security Budget. While tax expenditures on social contributions were on par with healthcare spending in 2009, they leaped ahead in 2014 with an increase of over BRL 50 billion (USD 18,518 billion). Figure 7 also includes an extremely relevant piece of information: it demonstrates that over the course of the period, and in a constant fashion, over half of all tax breaks came out of the Social Security Budget.

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40 The cuts applied to three work-intensive sectors—the furniture, clothing, and leather/footwear industries—as well as information technology and communications firms, which had already enjoyed special status since 2008.

41 In addition to another several dozen industrial sectors (consumer goods, intermediaries and capital goods), the list would take in retail as a whole, services (such as journalistic enterprises and call centres), construction, and transportation.

**Figure 7: Brazil, Tax Expenditures (Total and on Social Contributions)**

In terms of revenues, social policy is thus frustrated on all sides in its attempts to gather financing. Social rights have been undermined by policies meant to keep spending down, threatening the social protection system instituted in 1988. Examples of this backsliding include the 2015 establishment of stricter rules for unemployment insurance eligibility, with an extension of the waiting period before one can access the benefit; the introduction of a minimum length of union (two years) for a spouse of the deceased policy holder to qualify for a pension benefits, as well as a scaled reduction of the period over which the benefit is doled out, tied to the length of the marriage; and a reduction in the compensation for paid sick leave.

With a domestic slowdown and the international context one of instability and crisis, the government chose to adopt pro-cyclical spending cuts and weaken social protection systems' ability to sustain aggregated demand. Unemployment has risen, coming to 8 percent at the end of the trimester ending in April 2015 (IBGE). Industrial production has seen a sharp downturn over the past four years, falling fastest (-3.2 percent) in 2014 (IBGE, National Accounts). Household debt remains high, a consequence of aggressive interest rate hikes; the most immediate result has been returns of cars, residences, and other durable goods in the face of insolvency, given dropping household income and rising debt.

Economic policy, meanwhile, is focused on fiscal adjustment, along with a reduction in the subsidies provided to public banks for loans; peaking rates in the provision of electricity, water, and public transit; increased concession of public services to the private sector in strategic areas (essentially deepening the privatization of public goods and services); and a significant rise in the prime interest rate, set at 14.25 percent per annum in July 2015, overloading the public budget with financial expenses that effectively reduce space for the construction of a more active counter-cyclical fiscal policy, built on social investment. Interest payments on the public debt—benefiting an extremely small portion of rentiers—are set to pass the mark of 7 percent of GDP in 2015 (IBGE, National Accounts), feeding back into the concentration of wealth.

The image of the fiscal adjustment that emerges is as follows: instead of diversifying a mix of measures so as to broaden revenue bases (such as demanding greater fiscal participation from the richest), it leans on spending cuts executed via changing the rules for eligibility to social rights, while maintaining and broadening tax breaks that favour capital more. This strategy considerably reduces government's maneuvering fiscal space in the attempt to repeat, or simply maintain, the economic results achieved from 2004-2010. In addition to the contradiction between the rigidity of the tripod of macroeconomic policy and the need to recover growth, social policy itself—an emblem of previous administrations—has been dealt a blow by insufficient investment in strategic areas of social infrastructure and the offering of public services.

The tack taken by tax policy was even more conservative, based on a combination of tax exemptions and a heavier tax burden on salary—and, indirectly, on the lowest income brackets<sup>42</sup>—via an increase in the relative share of indirect taxes as a part of the whole, as shown in Table 6.

**Table 6: Tax Burden: Distribution by Category (percent of total revenue)**

|                        | 2004  | 2006  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Income                 | 19.2  | 20.5  | 20.5  | 19.9  | 18.2  | 19.0  | 17.9  | 18.1  |
| Payroll                | 24.9  | 25.7  | 24.1  | 26.1  | 26.0  | 25.6  | 25.7  | 25.0  |
| Property               | 3.3   | 3.1   | 3.3   | 3.4   | 3.8   | 3.7   | 3.4   | 4.0   |
| Goods and Services     | 46.1  | 44.0  | 48.7  | 47.4  | 49.7  | 49.2  | 50.6  | 51.3  |
| Financial Transactions | 5.0   | 4.9   | 2.1   | 1.8   | 2.1   | 2.2   | 2.0   | 1.7   |
| Others                 | 1.5   | 1.8   | 1.3   | 1.5   | 0.1   | 0.1   | 0.0   | 0.0   |
| Total                  | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Authors' elaboration from Ministério da Fazenda. Receita Federal. Report on "Carga Tributária no Brasil," several years.

An analysis of the tax burden by distribution across categories, as seen in Table 6, confirms the hypothesis of the deepening regressive character of the Brazilian tax system post-2004. Indirect taxes levied on the consumption of goods and services rose the most as a proportion of the tax burden as a whole, from 46.1 percent in 2004 to 51.3 percent in 2013. The relative burden of taxes is thus greater for lower-income families, who have a higher tendency to consume—while taxation on financial transactions, which mainly affects banks and high-income families, was cut significantly, from 5 percent of total tax revenue in 2004 to 1.7 percent in 2013. It should be emphasized that property is practically untaxed in Brazil, coming to just 3-4 percent of the tax burden.

In Brazil, unlike many European countries, popular consumer goods and services are not subject to special tax regimes (lower rates, with VAT low or near zero for essential goods), much less full waivers that might ease purchasing access.

The distortions of the national taxation system both perpetuate and exacerbate the mechanisms of social inequality, tripping up cash-transfer programs on the spending side of the equation. Income and property taxes, which might be tools for redistributive policy with an eye towards reducing the injustices and inequity of the tax collection system, remained practically stable as a percentage of the total tax burden, property taxes only

<sup>42</sup> The imbalance between indirect and direct taxes explains, to a large extent, the elevated regressive tax system in Brazil. The poorest families, with household income up to two minimum wages per month, have 53.9 percent of their income absorbed by taxes (mostly indirect) in 2008. Perversely, this percentage falls as family income rises: households with family income over 30 minimum wages per month only contribute 29 percent (Lavinás 2014b).

rising slightly. These two taxes represented 22.5 percent of the tax burden in 2004, slipping slightly to 22.1 percent in 2013 (Table 6).

The Brazilian tax burden reached the mark of 35.95 percent of GDP in 2013 (Ministério da Fazenda. Secretaria da Receita Federal 2013). This is clearly not a matter of scant taxation, but of a regressive distribution. In a new context of austerity and cuts in social spending, continuing to ignore the role of the taxation system can only hamper the promotion of a truly more just society.

## **Challenging the Brazilian Welfare Regime**

Having instituted a system of social protection with a sustainable budget of its own, shielding it from the instability and uncertainties of the economic cycle in a move that reflected the yearnings of a nation finally won over by democratic rule, Brazil seems to be drifting away from the symbols of its adherence to a welfare state model committed to equity, social justice, and unconditional solidarity.

In recent years, Brazil has been considered a paradigm on the international front in the fight against poverty the Bolsa Família Program, created outside the institutional framework of social security and separate from the constitutional criteria that guide social assistance to the neediest, stands out as a remarkable innovation, apparently having dragged down levels of both poverty and inequality. In fact, this new social arrangement has garnered laurels for being something it is not. A low-cost, residual targeted and neoliberal-oriented initiative (Lavinás 2013b), Bolsa Família fits perfectly into the process of a return to growth, initially driven by external factors making it urgent to address obstacles impeding the expansion of the domestic consumer market.

Two social policy mechanisms were able to give the necessary push for increasing domestic consumption. On the one hand, social policy was able to demonstrate its regulatory power—real increases in the minimum wage were the most influential factor in the significant reduction in the number of poor and a slight dip in inequity as measured by labor income and the weight of retirement plans and pensions linked to the same. On the other hand, the right to assistance allowed for a safety net that, slight as it might seem, is regular, has a strong institutional presence (paid out by the state) and scales to demand, bypassing persistent structural roadblocks. There was no need for countless years of massive investment in public education, swallowing a larger portion of expenditures, in order to offer quality, full-time education; this meant that growing levels of productivity could definitively overcome the social heterogeneity that makes Brazil still one of the most unequal societies. Nor was it necessary to satisfactorily equalize living and housing conditions across the population via improvements in urban infrastructure that might overcome highly segmented distribution, the source of hair-raising levels of social exclusion and violence.

The transition to a society of mass consumption took place without tax reform, without a redefinition of the productive base of the economy, without any concern for a public provision of goods and services that might allow for a real increase in the disposable income of all Brazilians and in particular the working classes. Today, the lion's share of their income returns to the state in the form of indirect taxes (55 percent), eaten up in the acquisition of essential services (the offering of which being either deficient or nonexistent). When household income runs short, the solution lies in making debts. In the absence of public services, the alternative is the market—and access to the market comes via much-lauded “financial inclusion.”

Over the past decade, the hallmark of the new Brazilian welfare model has been the prioritizing of monetary expenditures over what we might call investments in social infrastructure, aimed at equalizing opportunities and levels of well-being. At the same time, this model spurred on the mass consumer market, as well as the financialization that effectively provides access to durable and nondurable goods, and to services where the private sector steps in for the public sector—healthcare and education in particular. In driving on commodification, this model weakened the ongoing consolidation of social security, reinforcing dynamics that segment, discriminate, and condition access to social rights. This new welfare regime is nothing more than an additional function now attributed to social policy—in this case, custom-fit to the logic of financial capitalism. Paulani (2015:27) explains that “financial logic, both outside and alien to the needs of production, was internalized by the productive sector.” We might say that it was also internalized by social policy, in the sphere of social reproduction, which is thus recommodified under the aegis of finance-dominated capitalism. This manifests itself in the acquisition of healthcare, college loans, and all other sorts of insurance, but not exclusively so. Financial innovation has placed “individual loans linked to income” as one of the key axes of the broader dynamics of securitization.

The recent cycle of growth in Brazil put into practice much of what was already being preached by theorists of modern finance which, beyond its limitless scale and diversity, includes a behavioral dimension in its framework (Shiller 2003) in order to follow changes in demography, family arrangements and the job market.

Susanne Soederberg (2013) brought us the extremely appropriate and lucid coinage “debtfare state”, demonstrating that “the promotion of market-dependence on consumer credit for basic subsistence needs” (540)<sup>43</sup> is neither neutral (without class linkages) nor natural (inevitable).

Within the regime of growth with mass consumption, which appears to be petering out in Brazil, social policy worked indirectly towards remunerating financial rents. It did not promote constant, growing redistribution, nor did it subvert the profound asymmetries that have earned Brazil a place atop the list of the most unequal nations in the world (16<sup>th</sup> in the 2015 World Factbook ranking). This is a case of financial logic warping the sphere of decommodification.

In the attempt to implement a new economic regime driven by mass consumption and indifferent to structural transformations, pushing towards greater redistribution, universal policies and unconditional rights, Brazil gave up on acting to promote equity. Despite its social protection system—clearly weakened in the process, in part by the march of commodification across all aspects of life—social policy was used explicitly and predominantly to mitigate market failures. In this sense, it was essentially captured by the “globalisation of consumerism (...), driven by raising consumption and accompanied by serious deficiencies of investment,” in the words of Lo Vuolo (2015:44), when assessing Latin American welfare systems. Brazil is no exception in this regard.

The developmentalist project of the early 21<sup>st</sup> century was unable to reshape the pattern of distribution in a long-term, sustainable mold, strengthening egalitarian parameters among all Brazilians. On the contrary, it exacerbated the socioeconomic vulnerability of families whose reproduction is increasingly dependent on the market and their insertion

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<sup>43</sup> We would add for welfare needs.

into financial circuits. The market is not alone in providing well-being; along with it go families' and individuals' debt capacity. The welfare-credit link is definitely set in motion. Brazil's model of recent growth marks the attempt to implement a new pattern that one might say tends to reinforce a welfare-credit-led regime. Nothing could be more distant from social policy's *raison d'être*: to act on behalf of prosperity, warding off risks, reducing poverty, cutting down on vulnerability and providing security in the face of the uncertainties inherent to the model of capitalist accumulation.



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