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President of the João Mangabeira Foundation

For a better State

State reform is the general theme of this issue of the *Politika* magazine, jointly published by the João Mangabeira Foundation and Humboldt-Viadrina University from Germany, with versions in Portuguese, English and Spanish.

Reform is a central theme for us. Brazil now has a strong and responsive State, able to reward friends and punish political opponents of the government, but weak and unable to mobilize society in a national project – sending the country adrift.

This state crisis has multiple dimensions, as will be seen in the articles of this third edition.

Aspasia Camargo focuses on the Brazilian federalism, “one of the oldest solutions we found to better manage our territorial gigantism, but also our most pressing and unresolved problem.” In a pendulum path that alternated between excessive centralization and decentralization, we consecrated a “triune federalism” – that is, with three levels of government, which is a specificity of Brazil.

The architecture of this system has many cracks. The tax burden has been concentrated since the 1990s, as the Federal Government expands the collection of its exclusive resources to the detriment of those that need to be shared. At the same time, given the omissions of the federal government, states and municipalities are led to assume new responsibilities for which they are not prepared. It increases the imbalance in the distribution of powers and resources among the three levels of power – often with dramatic consequences, especially regarding the issue of public safety.

The necessary reorganization of our federative pact will require a constitutional revision. Maybe it is time to learn from the Constitution of Germany, which adopts the principle of subsidiarity, which has expanded throughout Europe today. This is to rule from the bottom up: when defining competencies, the civil society takes precedence over the State; to fulfil the functions that society by itself cannot take, one should look first to local authorities; if the tasks are beyond local capabilities, the states must be appealed to. The federal government should only be called to act on issues that go beyond the powers of all lower courts.

Our institutional construction has always followed the inverse way, thinking of top-down solutions. Therefore, more than a simple change in laws, a cultural change is needed.

Riberti de Almeida Felisbino and **Vitor Amorim de Angelo** present the governance conditions of our political system. They start by highlighting a paradox: although, in theory, we have a consolidated democracy that is supported by the majority, most believe that our political institutions are unreliable. The crisis of representation impacts the National Congress and parties. Even so, the authors acknowledge that both are essential to maintaining the management capacity.

Denise Lobato Gentil refuses to accept the widespread statement that the Brazilian social security is in deficit. According to the author, we have been subjected to a contradictory narrative, since the

indiscriminate use of tax exemptions have been used to stimulate private investment – a proven mistake – and have strongly hit collections for the security system. The government exempted resources provided by the Constitution to finance social security, while announcing the need to combat a supposed deficit.

Gentil shows that the current figures do not support the thesis of the deficit and argues that the determinant variables for system sustainability in the long run are outlying: formal employment, the level of wages, labour productivity. To avoid the risk of a collapse in the financing of the social security system “it is necessary for the country to grow, increase formal employment level and raise the average income in the labour market, promoting social mobility. The economic policy is the main element that needs to join the debate on the ‘crisis’ of social security.” It is not possible to analyse the social security issue in itself, without considering the evolution of the economy as a whole.

Our fourth theme is public health. Health systems can be classified through a typology that combines them according to the extent of state intervention in the financing, management and provision of services. The universal systems are those that, at least in theory, serve all citizens. The meritocratic ones are based on social insurance. In the residual ones, the State intervention is limited to assistance focused on certain population groups.

Our Unified Health System (SUS) belongs to the first group.

Ligia Bahia says the debate over it has been rarefied and accidental, which produces an “empty consensus”, as it hides the inability of the system in meeting the needs of the whole population with quality services. Some initiatives have stood out, such as the widespread vaccination coverage, the program against AIDS, medical transplants, sanatorium reform, the Family Health program, and the greater access to medicines. The prohibition of cigarette advertising should also be cited. But there is a chronic problem of underfunding the SUS, in addition to the precariousness of the management, which is reflected in the public opinion about the low quality of care – thereby ensuring a very lucrative private practice. The segments that opposed the approval of the universal right to health during the drafting of the Constitutional text never needed to oppose the SUS, since business has continued to thrive in this area.

The issue of financing the State policies brings us to the tax system, the fifth issue of our magazine, delivered **Evilásio Salvador**. We have here another paradox: although the need for tax reform has been a consensus for many years, its agenda cannot advance, since it involves a complex distributional conflict between society and the State, among different states, and among social groups. The current recession scenario makes the problem worse, causing huge losses in the government revenue collection.

The general tax principles set out in the 1988 Constitution – equity, contributive ability, progressiveness – are indeed correct, but the subsequent infra-constitutional legislation has gone in the opposite direction, deepening the regressivity of the system by increasingly transferring the tax burden to income from work. More than half of the Brazilian state revenue comes from taxes levied on goods and services, and the taxation on income and assets is low, which is exactly the opposite of what occurs in developed countries. This is

an essential question to begin a new stage of development.

The intentions of the constituents of the tax regime were largely frustrated. A study of the Institute of Applied Economic Research (IPEA) shows that the poorest households have 32% of their income destined to the payment of taxes, while the richest ones only have 21%. Moreover, the desired decentralization of the state capabilities began to be reversed in 1993, when social contributions that the Federal Government does not share with states and municipalities were untied from the revenue base.

Here the government action has also been frustrating. The main initiatives of President Dilma Rousseff for the tax regime were exemptions that benefited companies. There was no initiative to propose a comprehensive reform that was progressive in nature, something that is increasingly important for the country.

Now we come to our sixth theme: the investment capacity of the public sector. **Leda Paulani** recovers our historical trajectory and defends an important thesis: contrary to what the most visible economists in the media say, public and private investments do not compete between themselves; rather, they are complementary. The conservative diagnosis that says it is necessary to cut the former to increase the latter is sustainable neither in history nor in the present conjuncture of facts.

Paulani addresses a central question for the current Brazilian debate: why didn't the so-called “new macroeconomic matrix” of the federal government work? Large tax exemptions, together with the obligation of producing primary surpluses, and depressed public investment – which had already been low – did not stimulate the private sector to invest. Given the decline in growth rates – also driven by a less favourable international situation – the government accepted an orthodox diagnosis. This prescription has aggravated the economic situation of the country. The increase in the basic interest rate increases public debt, while the recession has made collections plummet.

As a result, fifteen months after the start of the second term of President Dilma, the government's finance situation got worse.

In “On Education and a National Project”, **César Benjamin** criticizes the view that reduces education to a mere tool of economic growth, showing that there are other substantive issues involved. In fact, while the demand for education is widespread in the modern world, its correlation with the economy had never even been established. Both in nineteenth-century Europe and in Brazil of the twentieth century, public school networks emerged and were expanded as expressions of affirmation of national States, which supported them materially and ideologically. The crisis of the Brazilian education, especially visible in the disastrous quality indicators, reflects the crisis of our State: “The lack of a [national] project is more distressing than the lack of money.”

Sociological factors have also contributed to the school crisis: “Teachers are also trained to serve the citizen subjectivity, while students are increasingly influenced by media, imagery and erratic subjectivity, which does not facilitate a productive stay in the classroom.”

Therefore, it is not just about asking for more money and more political will to support education. Our education system must be subject to a re-foundation.

Politika magazine always brings up issues of great relevance for the country – in the first issue “Urban Reform”; in the second, “Thirty years of Re-democratisation”, and now, our third issue presents seven decisive approaches for reforming the Brazilian State.

The topics we covered do not exhaust the subject, as there is much more to be done to improve public safety and the political reform, which is always the consideration of the João Mangabeira Foundation, social movements and office holders of the Brazilian Socialist Party. We are convinced of our contribution to a more qualified national debate, in the hope that the Brazilian society can be increasingly active in building a new and historical stage for Brazil.

A new federalism in Brazil

how to fix our asymmetric and incomplete federalism



**Aspásia
Camargo**

Aspásia Camargo has a doctorate in sociology at the *École des Hautes Etudes en Sciences Sociales*, University of Paris.

We live in a situation of serious imbalance. The responsibilities of municipalities and states have been growing, while the distribution of available resources is becoming more unequal. The federal centralization has not brought efficiency and improvement of public services. There is a chronic imbalance between the powers of federal entities and the distribution of funds. Municipalities have been assuming increasing responsibilities in the face of federal omission, and their resources have dwindled in equal proportion as constitutional transfers decrease, concentrating resources in the federal government. The federal pact and the constitutional reform are urgent needs that cannot be postponed.

I. Incomplete federalism: the equity structure of the State

Eradicate the influence of the oligarchies from federalism

Federalism is one of the oldest solutions found to better manage territorial gigantism, but it is also the most insistent and unresolved problem. Throughout our history we have oscillated as a pendulum, sometimes keenly centralizing the state, or decentralizing it, sometimes too much as in the Old Republic, when federal power was limited to the administration of the export centres which generated taxes.

In the democratic regimes, it is important to point out how oligarchies have taken advantage of the more decentralized structure of federalism, using their Trojan horse against it and its name exact old power. Patrimo-

nialism disguised as federalism generated the centralist counter-offensive of the New State.

Such feat was repeated in 1946 and even in the 1988 democracy and we must be alert to the imperial power of mayors, who often lose their mandates for committing abuses and misdeeds. However, it is important to point out that the example comes from above, from the patrimonial model that is reproduced from the top downwards.

Strengthen the municipality in an unregulated federation

The increasing role that municipalities have been taking in the chaotic structure of the Brazilian federalism must be recognized, despite the aforementioned chron-

ic difficulties and vices, which need to be shielded by the political exercise, by new practices and laws.

This trend has been established over the last 25 years, as the higher courts – distant from voters – do not feel obliged to fulfil their duties, either for the lack of resources or even because the mayor is actually forced to improvise tasks, occupying the political vacuum that is created under the direct pressure of the population and voters.

Federalism failed to exercise its numerous constitutional objectives. In reality it remained incomplete, awaiting the necessary regulations that would make it more pragmatic and efficient. None of this happened. Important articles of the Constitution, such as the 23rd that provides for the common delineation of the federal entities, remain inexplicably unregulated in a vital area for the proper functioning of the Constitution.

Without the clear definition of responsibilities, uncertainty prevails among federal entities, constantly disputing with each other or shirking their duties, depending on the interest or disinterest in the matter at hand. The amount of “federal skirmishes” is huge.

Such skirmishes may occur around environmental issues, abandoned buildings and public spaces of disuse, social tensions or infrastructure needs. The general principle that the federal entities can or should do everything in certain circumstances, or nothing in other equivalent situations, is often applied. The unthinkable ensues, weakening institutions and making people feel insecure and resentful.

Other key issues on the federal competence remain unresolved, such as the heterogeneity of our 5,570 municipalities, mistakenly treated as equals. No legislator has dared to sort them by size and income to generate federative justice and achieve better political outcomes.

It is important to point out that many activities actually performed by municipalities are not actually entitled to them. A settling of accounts should be done around the real duties and resources transferred to states and municipalities.

Democratic decentralization requires fiscal federalism via greater automatic remittances from the federal government to states and municipalities,





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and also from the federal government to the states. The current share reserved to the states and municipalities has been circumvented by the freezing of tax resources to be allocated and the expansion of rates and exclusive resources of the federal government. There can be no doubt: 22.5% of the income tax and the tax on industrialized products reserved for the states and municipalities have been insufficient, because of the omission of the superior entities and the overcharge on municipalities. It would be fair to increase the transfers from 22.5% to 25%, provided that they are compatible with the consolidated functions of each entity, eliminating much of the dependency and political subordination in relation to the federal government.

These transfers should be calculated technically, but we know beforehand that in critical areas such as health, technical education and high school, the infrastructure of housing, sanitation and transport, the federal government and the states have not been fulfilling their duties. The worsening of public security has been very costly for states, and requires compensation due to the omission of the federal government in its sole function of controlling the external and internal borders, which has facilitated the smuggling of weapons and drugs – for which the federal government is responsible. Such compensations could come from the budget, an increasingly unstable source, but especially from the automatic transfers of the participatory funds.

Small and poor municipalities, the rebellion of the isolated districts

Most of Brazilian municipalities are very small towns, sometimes isolated and without their own income. This situation leaves them politically dependent on federal and state transfers. They are technically unprepared to improve the conditions in which they live, especially the poorest regions.

More serious is the situation of the districts located in counties with large territorial extension, whose administration is unable to reach the most isolated and remote areas. Abandoned by the capital, which is always receives the better portion of attention and resources, the district remains lacking in public services. Out of its distance of the size of its popula-

Brazilian federalism has become imbalanced, with hypertrophy of federal functions that increasingly weigh on municipalities and reduce the importance of state governments.

tion, it does not deserve the proper attention. Years ago this situation of deprivation led to the uncontrolled proliferation of municipalities, especially in some states, such as Minas Gerais, Paraná and Maranhão. The trend was interrupted when the consent of Congress started to be mandatory. But there is still the problem of abandonment out of distance or disinterest.

Such is the case of the city of Búzios, a jewel of the Rio de Janeiro coast and an important tourist centre, which was treated with indifference by the municipality of Cabo Frio, from which it was emancipated. The emancipation neither eliminated its political dependence on the main municipality, nor improved its political class, but allowed the necessary autonomy to assume its responsibilities towards the population and to better explore its tourist potential and urban infrastructure.

It must be emphasized that the rules of equitable distribution, according to technical criteria, have not been properly regulated. The criteria for distribution continue to be determined by purely patri-

monial rules. Until today, the National Congress has failed to adequately regulate the law, despite the expired deadline imposed by the Supreme Court. It is a clear example that the omission of powers generates the supremacy of the Judiciary, fuelling the trend towards judicialisation.

The metropolis in the orphanhood of the incomplete federalism

The special status of the metropolis, recently regulated by federal law, fills the legal vacuum around the metropolitan areas of state competence, which have generally been abandoned to their fate, living on the crumbs and discontinuous attention from state governments. It does not solve the chronic problems within the Brazilian triune federalism logic.

Our federalism has given preference the smaller municipalities, leaving the large cities in political limbo. This behaviour affects the large cities in particular, which are treated as orphans in our federal structure. This “municipalism” has provided shelter to the common and ideological sense of the small municipalities, whose interests are well represented by the National Confederation of Municipalities, led by Paul Zuilkovski.

Former mayor of a small town of Rio Grande do Sul, Zuilkovski organizes an annual lobby in Brasilia that protects small mayors in search of a privileged partnership with the federal government. He has imposed a national agenda to capture a great part of the royalties generated by oil in Rio de

Janeiro. With the constitutional transfers in a free fall, the situation has gotten worse.

In the case of metropolitan municipalities, tax collection is low because the municipalities are poor and, in general, have no industrial vocation. While populism of the mayors has worsened the fiscal situation, the reduced constitutional transfers are unfair and disproportional to the size of their populations.

The recent and lamentable presidential veto of the *Estatuto do Metrópole* has rendered the statute yet another legal apparatus without positive practical consequences for the public administration of these metropolitan cities, which suffer from severe needs in transportation, health, sanitation and housing.

Such metropolitan omission reveals the nature of our federalism, much more focused on the geographical distribution of the territory than on the spatial concentration of the population. How can we solve this situation? The metropolitan regions of São Paulo are advancing in their coordinated and cooperative actions. In Rio de Janeiro, despite the backlog, a strategic planning program financed by the World Bank has just started to work, producing positive expectations of rationalization of public policies in the metropolitan chaos in the periphery of Rio.

It is urgent to create inter-federative agencies for planning and management, able to organize long-term joint strategic actions, and to develop short-term projects, offering forms of collabora-

tion with federal institutions. It is necessary to recover the creation of metropolitan investment funds, vetted by the federal government, that attract federal, state and inter-municipal resources for priorities defined by planning.

The emptying of the states and the federal debt

Brazilian federalism has become imbalanced, with hypertrophy of federal functions that increasingly weigh on municipalities and reduce the importance of state governments. The states have more reason to complain than the municipalities when discussing their role in our incomplete federalism. The Constitution ignored the historical importance of the states in the world federalism, probably delighted with the novelty it invented, the unprecedented “triune federalism”.

The federal trinity hinders the discussion of competences among three entities. There is no international jurisprudence on this. Before the fear of improvisation, its possible risks, the complexity of the entities and state functions involved, lawmakers and congressional advisors have opted for silence and omission. Paragraph 3 of Article 23 remains untouched. In the Federal Constitution, the state competences were reduced to almost nothing, remaining vague and undefined, compressed between two powerful bodies: the federal government and municipalities.

With the their indebtedness, compounded by the inflationary period that preceded the *Plano Real*, states contracted unpayable

debts with the federal government, considering the monetary correction and interests that were imposed. The situation is so critical that the debt of states is now higher than before payments started, setting a speculative and usury relationship between the federal government and the states.

Such leakage has also been the result of the privatization of public enterprises and state banks in the states in order to avoid crisis. But the greater jurisdiction in regulating metropolitan areas in general has not been fulfilled by the states, which continued to treat the capital and the municipalities of its surroundings with double caution: the fear of the capital, always bellicose and threatening the political projects of governors; and the poor surrounding municipalities, where an explosive cauldron of social problems is located. In both cases, the solution would depend on the available resources, which are generally non-existent.

The patrimonial heritage of the states is greater than those of the municipalities. While the latter, according to the Portuguese tradition, were the nation’s soul, created from the local interests of the “good men” of the place, the former, on the contrary, originated from imperial patrimonialism in a spirit similar to that of the hereditary captaincies, according to arbitrary criteria for defining borders, formally geographic but also political, in order to secure and strengthen central power.

These structures hold the patrimonial rancidity and often work

A regionalized budget and a participatory process of regional development is proposed to strengthen the natural identities of the region with their productive vocations.

with strong reporting relationships and political dependence between the governor and the mayors, as if between the king and his vassals. It is up to mayors to “please” and obey the governor’s will, and it is up to him to pacify the needs of the municipalities, always eager for public resources, as much as possible. This pattern of relationship is usually solid, settled by political culture. When its rules are not enforced, the risks are great, from both sides.

The weakening of the states led the federal government to resurrect a skilful patrimonial practice, also a Portuguese heritage, which is to value the direct alliance of the central government with local authorities. Cultivated by the central government, the practice of the municipalism began during the regency in order to circumvent the warlike provincial presidents, stimulated by the greater freedom granted to them by the *Ato Adicional*.

The federal practice of cultivating alliances with municipalities was repeated in the New State

with Vargas, who named Juscelino Kubitschek for the delicate task of the political coordination of the mayors, thus leading Kubitschek to become mayor of Belo Horizonte, also by the hands of Vargas, and later the governor of Minas Gerais and then president of Brazil.

The weakening of such patrimonial practices probably reinforced the centrifugal tendencies that strengthened the regionalization of the states. This natural tendency creates new opportunities for the economic development and the definition of productive vocations, which produce greater autonomy when the project is successful.

Frequently the enrichment of certain regions of the state encourages the call for autonomy or for negotiating manumission with the governor. Following this trend, a regionalized budget and a participatory process of regional development is proposed to strengthen the natural identities of the region with their productive vocations.

What could be proposed to rescue the states from this long process of wastefulness that has lasted almost three decades? They should take the leading role in regional development, which would hardly be the responsibility of the municipality, except as a subsidiary function – something that the federal government has been unable to do. The regionalization would be coordinated by the governor and by consortia of municipalities or regional agencies, with the support of the regional budget and development

funds, always maintaining the balance of local entities, apart from parties and local interests.

Territorial imbalance and asymmetrical federalism

It is opportune to remember that federalism is a system of government that seems to have been invented for Brazil. It was created by the parents of the American democracy, to unite the emancipated colonies without harming their autonomy. This “dual sovereignty”, at the same time federal and state, works on the principle of “unity in diversity”. This philosophy flourished in the nineteenth century in continental countries of extensive territorial basis, emancipated from colonial origin, such as the recent political formations of the United States, Canada, India, Australia and Brazil.

This political engineering prospered thanks to its flexibility and adaptability, and its success was spread to other emancipated countries or to ones with recent problematic unity, such as Germany, South Africa and Belgium, which sought to accommodate their internal territorial divisions, whether religious, ethnic or cultural.

Brazilian federalism is asymmetric in nature, due to our social morphology, consisting of a large territory with small, poor and sparse population. According to Domingos Velasco, one of the founders of *PSB*, this framework sets the inability to generate “coalescence”, i.e., a present and active civil society, social capital and the necessary cohesion to stimulate the self-organization that builds democracy.

Such is the classic difference with the United States, where colonization was developed, as in most of the former colonies, from the “art of association”, leading society to undertake numerous actions of civil character, without involving the government. The same miracle avenged northern Italy, according to Robert Putnam, from a modern reading of Tocqueville. According to both authors, community life animates and incites political development. Everything indicates that this is a promising path we should follow.

Asymmetries worsened due to the large, sparsely populated territory that produced strong inequalities in the economic predominance of “monoculture cycles” of itinerant and predatory agriculture. At the end of each cycle, the devastating result was the abandonment and the misery that was settled with the people who remained in the place.

This type of situation occurred in the former areas of gold mining, sugar cane and coffee plantations, as well as in the regions affected by drought, especially in the northeast of the country. The issue has acquired political and constitutional dimensions since the 1910s, drawing attention to the need of combating the stubborn centres of misery and poverty. The Federal Constitution made that commitment, and state policies have succeeded in its permanent commitment to combating such inequalities and asymmetries. We need to move in that direction, feeding the federative debate with new solutions.

II. Correct the asymmetrical federalism strengthening the democratic participation

The principle of subsidiarity: decentralization with democracy

To ensure the emancipation of civil society that is prisoner of the state, it is necessary to encourage the formation and accumulation of social capital, “empowering” society and transforming it into a permanent interlocutor of a strengthened public power.

Within this general principle to expand the autonomy and the role of society, we must resize the democratic federalism to release it from the patrimonialist vices that affected the periods of democratic decentralization that have been permeated by oligarchies and other parallel powers.

We should apply to this democratic federalism the principle of subsidiarity as set forth in German Law and incorporated in the European Constitution, which functions as a kind of federative dogma whereby governance is from the bottom up, contrary to our tradition.

The principle of subsidiarity was present in the Catholic Church in the 1930s and was introduced into the German Constitution of 1949 by Adenauer, subsequently adopted by the European Constitution. Franco Montoro was a great follower of that decentralization principle, which establishes civil society as the first level in the division of the federal attributions.

A first step is to create the natural priority of the civil society over the state in the performance of competences; then priority is given to municipalities to fulfil functions that the society is not able to perform; to states, when municipalities prove incapable; finally, to the federal government, when none of the instances below it have natural ability or willingness to fulfil the function.

In Brazil, subsidiarity works in reverse, upside down, leaving to the federal government the complete power of regulation, albeit in an undefined manner and with low capacity for implementation



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– a situation that paralyzes everyone. The protected civil society is rendered incapable of doing anything without surrendering to a large line of controls that are generally useless. Productive activities, financial, social and administrative regulations remain largely submitted to the government, and dependent upon its authority. It is the patrimonialism at its fullest, unprecedented complexity, the tangle of which paralyzes the government itself.

The principle of subsidiarity requires a new classification of federative competences, less formal and more pragmatic, depending on the actual situation of each federative entity. It is necessary to relax the rigid standardization and take into account the differences in each category. The municipalities would be interested in this kind of measure, which would allow them to benefit from the inherent advantages of their actual condition. Thus we would use the principle of subsidiarity as a means of correcting the asymmetrical Brazilian federalism with its extreme spatial inequalities and social and cultural heterogeneity.

In our case, these unequal competences manifest themselves at the state and municipal levels. We must urgently review such responsibilities, according to technical and political criteria that take into account these special characteristics and the actual capacity of each municipality or state. Politically, we should encourage municipalities to assume their duties, allocating the necessary resources according to their real financial, technical, political and adminis-

trative autonomy, corresponding to their proper assignments.

Subsidiarity could be an important instrument of classification. It would be better to organize the competences, which are unfairly standardized and unrealistic today, according to the size and income of the municipality, as well as its isolation from the regional dynamic centres.

Many states, especially former territories, never had the necessary federal assistance and remain passive and dependent on federal funds, without power or instruments to fully comply with their federative duties. In this case, it is the responsibility of the federal government to fund the strategic planning of these new states, so that they can reduce their dependence on federal funds in the medium term.

Spatial and social inequalities and sustainable local development

To solve the problems generated by this asymmetry, especially the existence of inequalities, the Federal Constitution states that the reduction of regional imbalances is a State priority, properly recognizing their interdependence with the social imbalances. It is a function of the State – particularly the federal government – to distribute and better equalize the national income.

Such efforts, as we shall see, have not been successful so far. The policies to reduce inequalities have been weak, vague, blurred and misleading. Over the years, the federal government has shown

Currently, the state is, at the same time, prey and a devouring, voracious, inefficient and illegitimate monster that can no longer fulfill his old and well-known functions.

that such policies, whenever possible, can move to the states through inter-federative funds and private capital inflow.

For decades, federal policies and the Ministry of Regional Integration failed to reduce, or even minimize, the regional inequalities, as determined by the Constitution.

The lack of infrastructure and resources for investments exacerbates the isolation of many regions, preventing the opportunities and stimulating the permanence of a non-monetary and communal economy. Meanwhile, narrow territorial areas, especially in the Southeast and South regions, concentrate production, consumption and wealth, consolidating the excessive territorial concentration of income.

In fact, it would be possible to promote affordable infrastructure investments, making better use of the “natural vocation” and the cultural potential of our regions and sub-regions. Sustainable Develop-

ment Councils that have spread across the country since the end of the 1990s would be dynamic centres for defining projects and training human capital around the protected regions, parks, preservation areas and similar places, for touristic, cultural and leisure proposals. These permanent projects would be a better economic and social alternative to the predatory and itinerant occupation of land by cattle and soy plantations.

It is surprising that an archaeological park of great beauty like the Capivara Park in the state of Piauí – impeccably preserved by the efforts of the international scientific community – is still underutilized, like so many others throughout Brazil that could be contributing to generate income and distribute wealth. After more than twenty years, the Capivara Park is still awaiting for the construction of a modest airport that would connect it directly with Pernambuco, facilitating the entry of tourists and maintenance work. In fact, the budgeted funds are annually removed in favour of other investments. Policies of local, integrated and sustainable development that have managed to succeed in regions such as Bonito in Mato Grosso do Sul could generate larger and better results.

Regional development and productive vocations: new anti-poverty policies

Regional development policies have either failed or at least do not correspond to the efforts and resources that have been mobilized to address the spatial and social inequities. Such practices have

been perpetuated for decades, creating their own clienteles. Instead of solving the problem, they encourage dependence and the string of political interests that were called “industrial executives of the drought” during the government of Juscelino Kubitschek. Such concerns, in fact, remain in the shadow of the public sector. The distance between the Northeast region, our largest territory of poverty, and the Southeast and South regions, the most developed centres of the country, is perpetuated.

The modest progress that has been made in the course of the last decades has been unable to stop the vicious cycle of inequality and differences between the national and the northeastern income average. In 2013, these national inequalities were very close to those of fifty years ago, when Kubitschek created SUDENE for the very same reasons.

The sustainable development policy of the Northeast region to gain access to the age of knowledge, technology and information, was well represented by the legacy of Eduardo Campos and the successful efforts to modernize the economy of the state of Pernambuco – one of the strategic goals of our program of government. State reforms that we advocate should give political priority, but also economic and social preference, once again, to the correction of the Brazilian territorial inequalities, as well as closely examine the way these policies could be more successful this time around.

The Northeast modestly pro-

gressed (or stagnated?) from 12% to 14% of GDP in 2013, while its population had reduced in proportion from 30% to 28% of the country’s population. Under the current crisis, the situation in the region is deteriorating rapidly and may affect the social advances that had been recently celebrated. Unemployment and budget cuts have hit this region hard, returning many of those who managed to rise to the middle class or above the poverty line to the D and E classes. Inflation and falling real wages have caused economic regression, making household incomes shrink socially. In fact, 1.2 million families have moved backwards in the last twelve months. Some have fallen from class C to D; others from class D have returned to class E.

Similarly, we should draw attention to the abandonment to which the Northern states have been relegated, states that are potentially very rich, but unable to defend themselves from the bonds of federal regulations to raise the necessary funds – not the patrimonial and corrupt sharing of the North and Midwest Development Funds, but for the real and effective sustainable development of the region.

The centralization of federal competences: sharing and fragmentation of power

Excessive centralization caused the leakage and dismemberment of the Brazilian state in the medium term. While concentrating powers – false powers – it is also obliged to give co-opted space,

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The Capivara Park in the state of Piauí is still underutilized and in process of degradation, while policies of local, integrated and sustainable development managed to succeed in the Bonito region, in Mato Grosso do Sul.

divided into a broad coalition of parties and fragmented interests that, as taught in the theory of coalitions, causes an inevitable paralysis. The greater the number of people in the same wagon, the less the wagon will roll.

Currently, the damaged machine holds different factions of the same party only to consolidate alliances that do not work, which is worse. The state is at the same time, a prey and a devouring, voracious,

inefficient and illegitimate monster that can no longer fulfil his old and well known functions.

The budget suffers from “rigor mortis” and can hardly meet the growing demands of a greedy society of small (and large) favours, but gagged and helpless. The low dynamism of the economy is submissive and state protection, depending on subsidized credit and whim of the powers that be. The spring has dried up. We are a coun-

What we conquered in the last seventy years, when creating a modern state, has regressed to traditional methods in force during the Old Republic. In this context, prejudice has been reborn against politicians.

try of low productivity and heavily indebted. Our gagged entrepreneurship is ever more on a path of informality and claims for manumission.

Debureaucratise the machine to combat the “black hole” of centralization

The idea that the bureaucracy only expands itself, slowed by indifference or inertia, is one of the myths that have been built around the impersonal power of the machine, which functions as an oppressive power, out of its gigantism and its power to control the ordinary citizen. In fact, the bureaucracy does increase its own power, fed by the regulations the state itself creates – new laws, for example – that multiply its supervision and control functions whenever possible. It is an endless source of resources for the corrupt official, whose gains are marginal, and for the state machine itself, which appropriates the largest share of the pie. Excessive regulations generate bureaucracy in equal proportion. Bureaucracy, in turn, generates corruption.

In the sphere of preventive principles to combat corruption, the first iron law is to restrict the regulatory capacity of the State to that which is necessary, thereby preventing its proliferation. The second is to decentralize the State machine, avoiding a dense chain of interest to be created around it, seeking its benevolence, large and small favours that render its core business into just a secondary activity.

The patrimonialism of the state is fed by the possibility of divvying the resources extracted among partners and allies to its maximum advantage. Such practices have been established in the State since time immemorial – since the era of absolute monarchies – that were only controlled by the political modernization that took place in the eighteenth century.

A tangle of regulations ensures the controlling power of the State and its power to transfer wealth to accomplices and protégés. Any attempt to reduce the paralyzing and inhibiting power of the machine and the bureaucracy that controls it arouses enormous resistance, which most always wins the game.

The best example of failed good initiative was that of Helio Beltrão, who tried in vain to reduce the bureaucracy of the centralizing and paralyzing fury of the military regime, which Golbery do Couto e Silva called the “black hole” in the swinging game of systoles and diastoles, i.e., the centralization and decentralization cycles of Brazilian political life. Hélio Beltrão tried to simplify people’s lives, starting with their

personal documents, inverted symbols of their citizenship.

Indeed, the juggling the bureaucracy performs to disturb citizens can only be compared to Dante’s *Inferno* or Kafka’s processes in his mysterious castle. On behalf of his identity and the national security, the current controls are multiplied, always in the search of an increase in revenues, on many levels. ID cards or driver licenses that could be definitive become temporary or provisory, under the most diverse pretexts. The provision of such useless services has increased since the times of Beltrão, who gradually gave up his impossible mission.

The alternative strategy was to change the focus and choose a regulatory area full of contradictions and embarrassments that hindered the action and the normal conduct of the economy. Even so, the results were segmented and meagre. Another problem is that while the Debureaucratization Commission eliminated roles and regulations on the one hand, the perverse logic of the regulations recreated them on the other. The tangle of laws, decrees and resolutions grows so quickly that it paralyzes and inhibits the production system in general.

For the sake of the economy and the Brazilian entrepreneurship, it is necessary to restore, with more savvy and vigour – and more boldly – the reform of the “notary bureaucracy”, an initiative that Beltrão has left us as a legacy of an unfinished dream.

In fact, we are living the opposite trend. The nature of the state is fed by the craving of cre-

ating and multiplying powers that can be shared in the distribution of resources and favours. The federal government inexorably expands its machine in exchange for political loyalty to perpetuate itself in power. It is no coincidence that the cost of public administration and its employees increases, paradoxically even more than GDP. It aims to increase expenses and decrease revenue, or to create ministries in which to accommodate the political clientele that raise votes – or to make accommodations for disputes among government allies.

Occasionally, the downsizing is just the misleading attempt to appease the public opinion and to contain the political voracity, which resulted in increase of the ministries, from 23 in the Itamar Franco government to 30 in the period of Fernando Henrique, reaching the unprecedented number of 39 ministries with Dilma Rousseff. With the greater the number of ministries and state enterprises, fewer are the resources to fulfil the managerial functions of the State at the political and administrative level.

In the current scenario, the Brazilian state is reduced to a heavy, useless carcass that needs to decentralize its functions. The federal government should adapt itself to a modern philosophy of government, strengthening the governance mechanisms: fortifying its genuine and irreplaceable functions, such as enabling high-level staff; delegating functions, promoting complementarities that require its natural competence, and reshaping the governance

structures. It is urgent to clearly separate the functions of State from those of government, requalifying the public sector, resetting the flow of decision-making, encouraging partnerships and integrated actions, delegating functions and improving the quality of management.

Distortions were accumulated during the dictatorship and continued during the democratic regime, despite the forced downsizing caused by the 1990s crisis. The cardinal sin is always the same and revolves around the same common denominator: the patrimonial State confuses public and private spheres. Hence the ease with which corruption penetrates the corroded fabric of the state, because after all, the State is a superior entity serving the sovereign unconditionally, as if by divine right.

Our presidentialism, despite being formalized by vigorous electoral competition, upholds these imperial characteristics that are linked to a political culture of hierarchical relationships, blurring the distinction between public and the private domains, sweetened by personal, patriarchal relations inseminated by nepotism and the exchange of favours.

Presidentialism delegates its representative powers that are symbolically absolute, besides being poorly controlled. Such powers are appropriated by the state apparatus, which has an owner, is extended to relatives, protégés, and the friends of friends.

Therefore, the state machine perpetuates inequity, is undemocratic, ignores human rights and

feeds inequality with the poor distribution of services. Therefore, the Brazilian government seems increasingly distant from those it should serve and from its main function, which is to defend the collective interest.

Even the most modern parts of the Brazilian state, such as the state-owned enterprises – created during the Vargas era and later during the military regime – have regressed, having been placed in the hands of businesses related to State capitalism, a mix of enterprise corruption and political-party peddling.

What we conquered in the last sixty years, when creating a modern state, has regressed to traditional methods in force during the Old Republic, overthrown by the Revolution of 1930. Just as it had been at the time, prejudice has been reborn against politicians, against anarchy and the excesses of liberal democracies – which is an indirect warrant for the authoritarian and corporate State.

The collapse of public security: federative war and among the three powers

Society helplessly reacts as in the Leviathan, to the state of war of all against all. None of the three powers fulfills its part or is able to deal with their legitimate responsibilities.

Public security is the most serious federal problem we face today. As a mission of the State, its responsibility rests too heavily on the state police, whereas it is up to the federal government to take care of our borders, where the

smuggling of weapons and drugs towards the large Brazilian cities freely circulates.

The state police, hypertrophied and ill-prepared, do not even have an efficient system of expertise. The employees do not have exclusivity in public employment. They are unprepared and exposed to corruption. Constitutionally unable to act as they should, the police are forced to benefit from the increased funding from other vital areas of the state governments. We pay the price in the extermination of policemen and of the Brazilian population.

It is necessary to strengthen the federal responsibility for the security policy of the states, requiring investigative work and ostensible policing of ports, airports and state borders. In addition, the security policy should

require the direct presence of the federal government in areas of rebellion, especially urban areas, today subject to the action of militias and trafficking.

The legal system is seriously compromised. The law, which should protect citizens, actually protects criminals through various legal and infra-constitutional procedures, such as the Penal Code, and further, the Law of Penal Enforcement, which need to be reviewed.

For the sake of justice, we must adopt the basic principle that the intensity of the penalty should match the seriousness of the crime. Penalties should focus, in an exemplary manner, on organized crime and murder, and have the reduction of homicides in general as a goal. We should radically combat any conduct that

The fragmented country disintegrates itself, through the social disorder, the accumulated injustices, the inefficient institutions, and the distrust of citizens. A re-allocation of resources may be on the way.

represents a threat to life. Likewise, we should stimulate, with the penalties imposed, coexistence and social peace.

The prison system needs to be urgently fixed in its philosophy and profile of serious social inequities that penalize the poor people without legal assistance, especially young black individu-



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als, who do not obtain positive results with social re-integration. Upon leaving prison, they do not receive real assistance to enable them to reintegrate socially. The real and unacceptable situation is that the penal institutions, instead of being educational, are the best schools of crime.

We should not accept the excuse that the prisons are full to mitigate sentences and release offenders, especially regarding murderous crimes. On the other hand, urgent measures must be taken for the prison system to release those who have served their penalty and are still imprisoned, or those who are in jail due to lack of legal assistance, but could be sentenced to pay fines or alternative sanctions.

In the country that has encouraged judicialisation, punishment by fine must be expanded, provided that they have a real impact on the income of the offender. Otherwise, this would be a misleading or innocuous solution.

The security policy is precarious and is one century late, and it has failed to stimulate professionalism in investigations, which accelerates and provides greater security. It is necessary to separate more clearly the functions of civilian police and military police, the former, investigative, and the latter, ostensible. The dispute between the two forces is well known, which weakens the security system as a whole.

There is also a silent competition between the civilian police and the judiciary, which results in the failure of identifying and punishing guilty individuals. This chronic weakness in investigations is mainly responsible for an excessive number of crimes without conclusive evidence. A percentage of less than 8% of offenders end up in jail.

In short, the state must strengthen the police and prevention policies, protecting vulnerable populations and preventing small crimes evolve into more serious ones. Developing inclu-

sion policies that empower black youth would be policy at the root cause of the mass extermination, a crime silently fostered by the public power itself with the stray bullets and street clashes.

The dispute among the executive, legislative and judiciary powers is increasingly visible in both the uneven distribution of costs and the wages and allocation of resources. On one hand, the increased judicialisation is the result of the omission of the executive and legislative branches, leaving empty spaces for the judiciary; on the other, it is the result of citizen pressure on prosecutors and the judiciary, making it tempting the option for those facing omissive powers. The fragmented country disintegrates itself, through the social disorder, the accumulated injustices, the inefficient institutions, and the distrust of citizens. The imbalance among the federal government, states and municipalities is getting worse. A re-allocation of resources may be on the way.

III. The new federative pact: What to do? With whom?

■ Distribute competences: who does what in our triune federalism? The first commitment of the federative pact is decentralization with centrality, seeking to strengthen the federal functions of coordination and integration, but seeking to free the federal government from transferring power to other spheres by federal nominations in the states, thereby ensuring loyalty and allegiance from parties, but forcing

it to renounce formulating and implementing national policies. We need to apply more clearly the different competences of our “triune federalism”, distributed among the federal government, states and municipalities.

■ Introduce a coherent distribution of competences and income, establishing as a political priority the re-division of the State Participation Fund (*FPE*) and

Municipalities (*FPM*), compatible with the transfer of functions and their actual costs that have been incurred by states and municipalities in recent years.

■ Increase the transfer of federal funds via *FPM* from 21.5% to 22.5% to offset the increase of municipal duties that had originally been under federal responsibility, such as health. The municipalities increased their responsibilities in

health, sanitation and housing; and the states in the area of public security, linked to drug smuggling and trafficking, as well as in transportation and health.

■ Raise the rate of *FPE* and *FPM* from 21.5% to 24.5% to provide the real federative balance, and not just a minor compensation that satisfies no one. These additional resources should be allocated to core activities, restricting the expansion of spending on superfluous activities or with hiring of staff, which is swelling the administration of municipalities. The fund's objective would be to increase the income of the municipalities through taxes.

■ Combat a distortion that was accumulated over the years: as a result of the old paternalism, the voluntary transfers of the federal government were increased, destined to friends-partners, while there was a decrease of the automatic transfers that are democratic and universalist nature, which are destined to certain purposes and guarantee the equality in the federative relations.

■ Institute the subsidiary principle as a democratic regulatory rule, establishing a bottom-up competence hierarchy, valuing the civil society before the State, and the municipality before the higher spheres of the state and the federal government.

■ Duly regulate the single paragraph of Article 23 of the Federal Constitution, which defines broad common responsibilities

There is a link between centralism and corruption, since the automatic transfers from the federal government are replaced by voluntary transfers.

among the federative entities. The lack of jurisprudence on the triune federalism has generated undefined functions, for the insecurity of the legislator. This omission has created a federative imbroglio, by allowing a huge overlap of functions among the federative institutions, along with gaps and omissions related to a large number of public policies.

■ Promote the cooperation and integration among neighbouring municipalities in the same region through different types of partnerships: consortia, social organizations, companies or any other types of organization. Also ensure that the consortia can be integrated vertically, associating the federal government with states and municipalities.

■ Create sustainable development councils, with a strategic and participatory vision of the medium and long term. Bet on the local, integrated and sustainable devel-

opment, in the scope of regionalized development, abandoned in recent decades, based on the pillars of a new economy for the knowledge society, entrepreneurship and social inclusion, as well as the environmental responsibility and sustainable use of natural resources, culture, tourism and leisure, to generate employment and income.

■ Demand the regionalisation of state governments and its decentralised budget, besides strategic, participatory regional plans. Stop the allocation of resources based on protecting political allies.

■ Stimulate competition through good practices among entities of the same weight, as in the case of municipalities with up to 10,000 inhabitants or those that have more than 500,000. Federalism is a system at the same time cooperative and competitive, and therein lays the balance that streamlines the federation.

■ Incorporate an intermediate institution to the Federation, the metropolitan area, whose Statute of the Metropolis was voted for by the National Congress. However, the President vetoed the proposal of the Metropolitan Fund, making the statute another document of questionable utility. The metropolitan agencies need to be created with funds comprised of inter-federative resources in order to stimulate joint initiatives, reduce inequality, protect the environment and, above all, encourage productive economic activities.

■ Recuperate our federal pact, painfully regained (and improved) by the 1988 Constitution, which defended administrative and fiscal decentralization, and promoted a unique innovation: incorporating the municipality as a “federal entity”, enshrining the municipalism that comes from the Colony and the Empire.

The economic crisis and political disintegration threat of the 1980s and 1990s strengthened the federal government with a set of constitutional amendments and provisory measures that restored centralization. In addition, they stimulated the excessive dependence of states and municipalities, while the federal government recovered its lost resources. Therefore, we undergo a serious fiscal imbalance: the expansion of the responsibilities of the municipalities and states, while the distribution of available resources is increasingly uneven. To make matters worse, the federal centralization added neither efficiency nor improvement to public services.

From the territorial point of view, there is a chronic imbalance between the powers of federal entities and the distribution of funds. Municipalities absorb growing responsibilities, trying to answer to the federal omission, as their resources dwindle in equal proportion to the extent that constitutional transfers decrease, concentrating resources in the federal government. The federative pact and the constitutional review are therefore an urgent need that cannot be postponed.

What are the tolerable limits of centralism and discretion, and how can we correct the excessive accumulation of federal functions, consistent with good governance and the normal functioning of society?

There is a natural link between centralism and corruption, as Tavares Bastos has pointed out in the past, since the automatic transfers from the federal government are replaced by voluntary transfers through agreements and political complicity.

How should we deal evenly with the 5,570 Brazilian municipalities, most of them poor and small, but with heterogeneous

territorial and population bases, and unequally capable of generating revenue and wealth? How should we control costs that cannot be supported by their own collection and revenue? How can we support city councils and administrative structures that are incompatible with their income levels?

How should we deal with states, old obsolete structures, inherited from the Empire, according to the distribution principle similar to the one of the hereditary captaincies, and which are now emptied in their residual functions, but still have patrimonial power moved by discretion? ■

Notes

1. The law called the Statute of Metropolis was regulated on January 12, 2015 and determines a period of two years to be recognized and regulated in the municipalities compose the big metropolis.
2. Aléxis de Tocqueville, *Democracia na América*, and Robert Putnam, *Making democracy Work: Civic Traditions in Modern Italy*, Princeton University Press, 1992. More recently, Putnam retakes the theme in “Better Together, Restoring the American Community”, a joint work with Lewis Feldstein, N.Y, Simon & Schuster Paperbacks, 2003.
3. The word “empowerment” in English means to give more power to an underrepresented segment or to some structure in the same situation.
4. According to the Federation for Trade in the State of São Paulo, a reflection of that drawdown appears in the loss of power of consumption in supermarkets. According to IBGE, in July, families left the supermarket with a 2% lower volume. Changes in the cost of living by social class in the twelve months, as measured by Fecomércio in July 2015, shows that the cost of living increased by 8.73% for class A, 8.82% for Class B, 9.87% for class C, 11.26% and 11.16% for classes D and E. Class E increased from 21.6% of the population to 23.1%. The wage loss accounted for a drop of 2.5 percentage points of average household income last year.
5. Hélio Beltrão seems to have been inspired by Helio Jaguaribe, in defining the notary State in the publication *Cadernos do Povo Brasileiro*, the precursor of the *Instituto Superior de Estudos Brasileiros* (Iseb) in the early 1950s.
6. Tavares Bastos in “A Província” makes the oldest and forceful review about the Portuguese centralist and imperial heritage, and the irrationalities and political aberrations caused by the excessive centralization of the Empire.

Governance and democratic institutions in contemporary Brazil



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Opinion polls have shown the lack of confidence of Brazilian citizens in their democratic institutions, particularly political parties. The current design of the political system is composed by several institutions. Their combination – or their institutional design – has given rise to a series of political and academic discussions. This article presents some peculiarities of the Brazilian political system and the dilemmas experienced by our democracy, reflected in its operation and the exercise of governance itself. Regarding political parties, although viewed with distrust by the civil society, we believe they are still key institutions to guarantee governance.

Brazil has been experiencing a dilemma similar to the one other democratic countries live nowadays. On the one hand, its institutions are reasonably established and consolidated, in spite of several proposals for renovation of the political and electoral system. The Brazilian democracy currently meets both the formal principles defined by Manin (1996)¹ for the existence of a representative government and the criteria formulated by Dahl (1989) for the establishment of a *polyarchy*.² On the other hand, Brazilians seem increasingly distrustful towards the political institutions, thereby testing the very democratic system in place since the 1980s. The greatest expression of this dilemma lies in the contradictory combination of what Santos and Avritzer (2003,

p. 41–42) called “hegemonic conception of democracy” and “degradation of democratic practices.”

This hegemonic model, established after the World War II, formed a “low intensity democracy”. In other words, the type of political regime consolidated in the second half of the twentieth century assumed a contradiction between institutionalization and mobilization, valued political apathy, concentrated the debate on the democratic regime in the electoral designs, pointed pluralism as a way of party incorporation and dispute between elites and advocated a minimalist solution to the problem of political participation. As the hegemonic model of democracy was consolidated, counter-hegemonic proposals were presented; their crit-



icism focused especially on how representation and participation were included in the traditional conception of democracy prevailing at that time.

One of the visible symptoms of the dilemma expressed in the contradiction between consolidation of democratic institutions and lack of confidence in democracy is the “dual disorder” (Santos and Avritzer, 2003, p. 42), marked by rising abstention by the side of participation, and by the increasing gap between elected candidates and voters by the side of representation. If in Brazil, where voting is compulsory, abstention has achieved high percentages, in democracies like the United States and France, for example, the proportion of voters who simply do not show up at

the polling stations – or, when they do, they cast blank or spoiled ballots – remains dramatically high for a political system whose fundamental principles include regular elections to choose representatives.³

In the case of representation, the protests of July 2013 in several Brazilian cities seem to indicate how the distance and the lack of identification between elected candidates and electors, the fragility of the control mechanisms the last ones have over the first, and the absence of responsive mandates in relation to the represented are features of our current political scenario. In this sense, the popular demonstrations the country witnessed two years ago, far from representing an invigoration of democracy, can be

interpreted, in fact, as an expression of worrisome disbelief in the values and institutions of democracy. Nevertheless they verbalized concrete and actual claims, the protests revealed much of intolerance and incomprehension, without offering solutions to the political and institutional problems present in the agenda of discussions in Brazil today (Nogueira, 2013).

In his work about the confidence of Brazilians on democracy, Moisés (2005, p. 34) notes that, in the country, “the negative perception of the institutions can be found in all income, education, age and ecological distribution segments, influencing citizens’ disposition to participate in the political processes.” If this negative feeling about the insti-

tutions is widespread among Brazilians, confirming the diagnosis of “disorder” advocated by Santos and Avritzer (2003), what do experts say about our political system? Do parties, for example, still have some relevance in this discredited scenario? Does governance tend towards chaos or order? The purpose of the following article is to discuss some peculiarities of the Brazilian political system and the dilemmas experienced by the current democracy, affecting its functioning and the exercise of government itself.

Democratic adhesion and mistrust in institutions

Since the late 1970s, Latin America underwent a generalized process – but very differentiated internally – of change of political regimes, in what was called by Huntington (1994) “third wave of democratization”. In this context, countries like Brazil, Argentina, Uruguay, Paraguay and Chile made the transition from authoritarian to democratic regimes, liberal-representative ones. In the academic community, the interest for the process of consolidation of these democracies and the quality of the new political regimes gave rise to a large and diverse collection of works. In a region marked by the violence of the military governments that dominated the political scene in the last decades of the twentieth century, the interest of this production can be explained by the importance that democracy represented in the history of the Latin American countries.

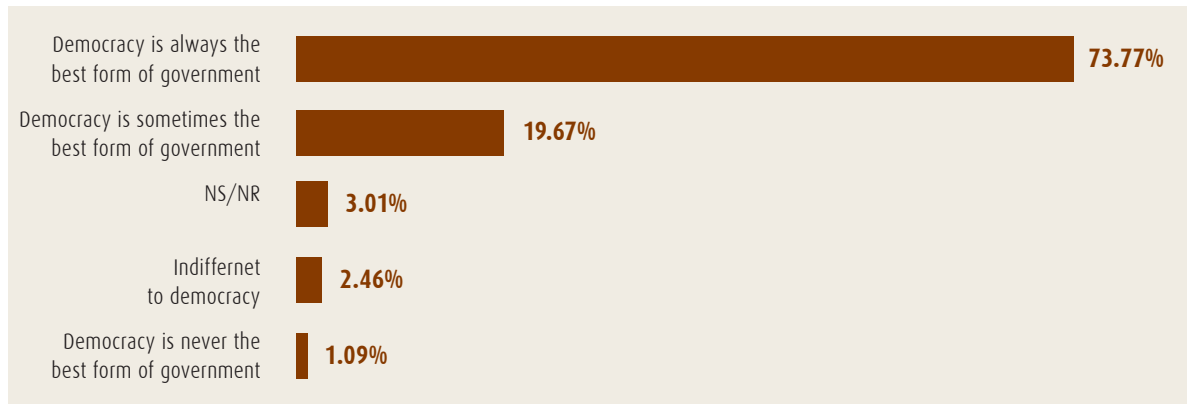
With regard to Brazil, in 1995, a decade after the end of the dictatorship, the Brazilianist Thomas Skidmore published a short article entitled “Parties make Brazil ungovernable,” in the newspaper *Folha de S. Paulo*, wondering what could be said by that time about the Brazilian democratic political institutions. According to Skidmore (1995), “the most serious is the case of the electoral system that barely works and created the most fragmented party system of any democracy in the world.” In his view, “party cohesion and party coalitions are indispensable to the administration of democratic politics [...] however, Brazil produced a formula that virtually restrains responsible party behavior”. Such comments were frequent at that time. It was believed that the Brazilian democracy might not last much longer, in view of the problems and the weakness of its institutions.

After more than two decades since Skidmore’s article, not only was the implicit thesis in comments of this nature confirmed, but works thereafter analysed the quality of a democratic regime that completed three decades in April 2015 – Brazil’s longest-lived democratic experience. Considering the Brazilian context, studies like Moisés’ (2005; 2010) and *Latinobarómetro* indicate that democracy has been consolidated in Brazil, but, contradictorily, Brazilians do not trust institutions, especially parties. Such mistrust can create an “environment that favours members of the political community to feel disengaged from public life, and may refuse to cooper-

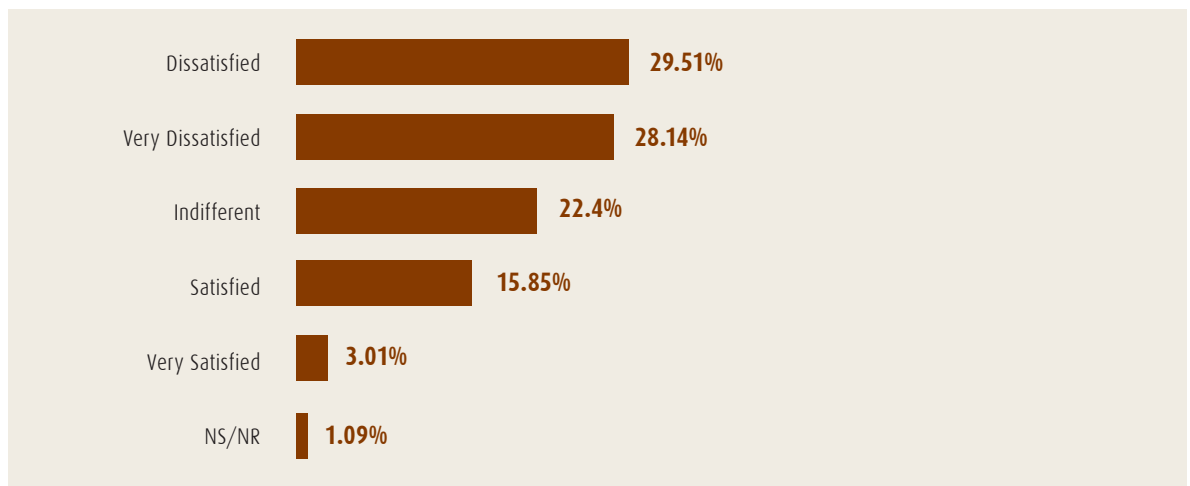
ate with state guidelines or ignore the laws and norms that regulate and organize the social and political life.” (Moisés, 2010, p.12).

Here we can see the previously mentioned “dilemma”, produced by the contradictory combination between the expansion of the hegemonic model of democracy and the deterioration of democratic practices. Data on what occurs in Brazil allow us to deduce that disbelief in democratic values can generate an environment of institutional abnormality, putting in doubt the institutions on which democracy itself is based. For example, in a recent survey we coordinated in Espírito Santo about the protests against the federal government occurred in August 2015,⁴ it was highly noticeable that, in contrast to the positive evaluation of democracy as a form of government, few protesters showed themselves as openly opposed to military intervention – which would represent a breach of the very democratic order which the respondents in general said to be aligned with.

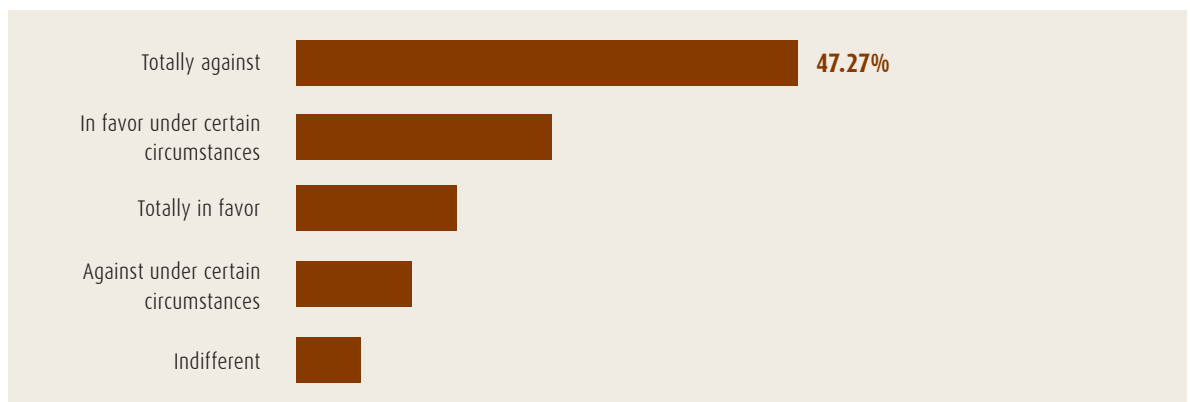
In Figure 1 you can see that democracy is well rated by almost 3/4, being considered “always the best form of government.” However, once asked about democracy in Brazil, that is, on the actually existing system, and not on a theoretical and philosophical conception of democracy, the relationship is reversed. Only 1/4 of the protesters proved fully confident in the Brazilian democracy, as indicated on Figure 2. In addition to the reduced support to this political regime among the survey respondents, another very

Figure 1 Opinion regarding democracy – Espírito Santo (2015)

Source: Survey "Protests 8/16: profile and perception of protesters in Vitoria (ES)", 2015.

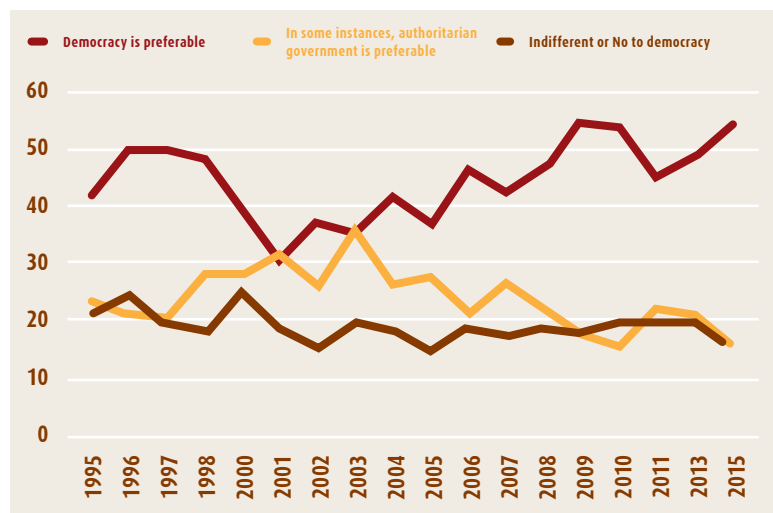
Figure 2 Satisfaction with Brazilian democracy – Espírito Santo (2015)

Source: Survey "Protests 8/16: profile and perception of protesters in Vitoria (ES)", 2015.

Figure 3 Support for the return of the military to power – Espírito Santo (2015)

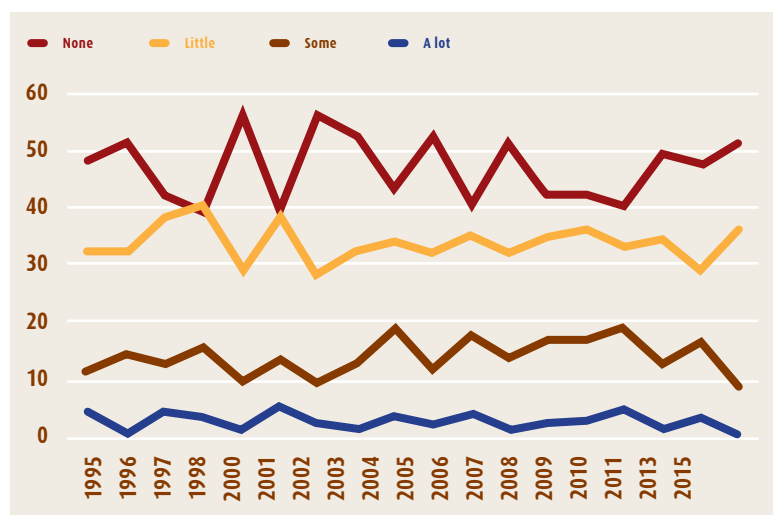
Source: Survey "Protests 8/16: profile and perception of protesters in Vitoria (ES)", 2015.

Figure 4 Adherence to democracy – Brazil (1995-2015)



Source: Survey Latinobarómetro, 2015.

Figure 5 Degree of trust in political parties – Brazil (1995-2015)



Source: Survey Latinobarómetro, 2015.

significant finding was the high percentage of people who would admit a military intervention in Brazil, as indicated on Figure 3, a percentage that exceeds in total the amount of protesters “completely contrary” to the interruption of the democratic order in the country.

The results of the survey in the Espírito Santo are aligned with the data released by Latinobarómetro on the adhesion of Brazilians to democracy, which is equally low. It is also worth mentioning that the same research institute has been measuring, over many years, the parties have little confidence in Brazil. The graphics below show the oscillation of the support for democracy (Figure 4) and the growing distrust of parties (Figure 5) in the country.

As we can see in Figure 4, 83% of the surveys conducted by Latinobarómetro found that the percentage of Brazilians who prefer democracy to any other form of political regime never exceeded 50%, indicating that democracy was not well regarded by respondents. On the other hand, in the years 2009, 2010 and 2015, the Latinobarómetro found that the respective percentages reached 55%, 54% and 54% of the total, with a small increase in adherence to the democratic regime in the country. Referring to Figure 5, it is clear that parties are institutions with little or no trust within civil society. In a recent survey with São Paulo voters, Datafolha found that 71% of respondents have no preference for any party.⁵ The data of the surveys indicate low acceptability of democracy and its institutions. Nevertheless, as Freidenberg (2007, p.2) rightly said, “Latin America is today much more democratic than thirty years ago” (translation by the authors).

Institutional design and its combinations

The information of the figure 6 shows the current institutional design of the political system in Brazil, combining presidentialism with a democratic political system and a federal state model. This structure also contains an elector-

al system of majority and proportional representation with open lists⁶, currently housing 35 parties (multi-party system) in constant dispute within the electoral arena. In Brazilian bicameralism, from the total of 35 parties, 28 have seats in the House of Deputies and 15 in the Federal Senate.

Part of the specialized literature can be grouped by studies that analyse the system of government and the electoral and party systems, advocating the idea that the combination of these institutions creates institutional instability – a result which, in turn, provides power holders poor governance (Ames, 2003, 1986; Lamounier, 1989; Lamounier and Meneguello, 1986; Mainwaring, 2003, 1993, 1991; Mainwaring and Shugart, 1993; Mainwaring and Scully, 1994; Mainwaring and Liñan, 1998; Linz, 1991; Campos, 1974; Kinzo, 1988). Another part focuses on the analysis of the rules of the legislative process, defending the thesis that there are institutional mechanisms for governance and stability of decisions (Amorim Neto, 2000, 1994; Amorim Neto and Tafner, 1999; Cheibub, Przeworski and Saiegh 2002; Figueiredo and Limongi, 2006, 2004, 2002, 1999, 1995a,

1995b, 1994; Meneguello, 1998; Pereira and Mueller, 2002; Santos, 2003, 2002, 2000, 1998, 1997).

These ideas come from the findings of the studies published by Juan J. Linz and others on the system of government (presidential) adopted in Latin America. To Linz (1991), the functionality of presidentialism could create difficulties for governance and threaten the stability of the democratic regime. However, if combined with the proportional representation of open list and a multi-party system, presidentialism could further increase conflicts between the Executive and Legislative Powers, which, in turn, would drastically affect governance (Mainwaring and Shugart, 1993). Since Brazil presents such a combination, it would be presumed that the country lived, as stated Lamounier (1992, 1992a), a “hyperactive paralysis syndrome.” This prognosis, however, is not confirmed in the operation of Brazilian institutions.

Sergio Abranches, in his seminal article *The coalition presidentialism: the Brazilian institutional dilemma*, advocates that the conflict between the executive and legislative powers is a problem for the stability of democracy and the ability to govern. This conflict would be

caused by two factors: the high party fragmentation inside the legislature, on the one hand, and the “agenda inflated with problems and demands imposed on the Executive” on the other (Abranches, 1988, p.8). The more problematic of the two factors, according to the author, is the high party fragmentation, which would compromise the formation of stable majorities to approve remodelling as proposed by the president. The solution to this “Brazilian institutional dilemma” (Abranches, 1988) would be creating government coalitions – a long-time practice of the Federal Executive.

Abranches gives the name of *coalition presidentialism* to this practice that combines proportionality, multi-party system, a kind of presidentialism that gives many powers to the head of the Executive, and a government that operates with large coalitions. The existing articulation in the Brazilian political system of open-list proportional representation, an extreme multi-party system and presidentialism in the same strategic arrangement proved that the proposals of Linz lack empirical support. Works such as Limongi’s (2006) have stated that the Brazilian presidentialism does not hold

Figure 6 Institutional design – Brazil

Government system	Political Regime	State Model	Electoral System	Party System	Legislative Structure
Presidentialism	Democracy	Federal	Majoritarian Representation and Proportional with open list	Multiparty	Bicameral

Source: Prepared by the author.

anything “unique, special” as to require some form of qualification, as if “we did not practice a normal or ordinary presidentialism”. Despite the lack of confidence in democratic institutions, as we saw in the first part of this text, Limongi (2006) has shown that in comparison with other democracies which adopt presidentialism, or even in comparison with parliamentary regimes, the decision-making process – that is, the ability to govern – as seen in Brazil is very similar.

Presidentialism and institutional instability

According to the neo-institutionalist perspective, in its aspects of rational choice, individuals have their own interests, and they try to act strategically in order to meet them in the most rational way possible. To prevent their actions from harming the other actors, the institutional arrangement is important to regulate and coerce their behaviour. This reasoning can be applied to members who occupy the Executive and Legislative Powers, as they also have their concerns. To achieve them, they build political coalitions to facilitate the exchange of interests between the actors involved in the decision-making process. These coalitions can aggregate several interests, which, in turn, sustain democracy and presidentialism, enabling the efficient and consistent exercise of governance.

Literature on presidentialism is extremely broad and diverse. Very often, as in Limongi (2006), treatises on presidentialism com-

pare this system of government with the parliamentary system. This comparison may seem inappropriate, but we consider it relevant, since it allows for identifying the problems and virtues of these systems, especially presidentialism. When part of the literature performs this comparison, the intent is to investigate the alleged inefficiency and instability of presidentialism, with its natural division of powers that generate permanent conflicts between the Executive and Legislative powers (Linz, 1991). According to some experts, such as Mainwaring (1993), for example, this conflict can threaten the survival of the democratic system and, therefore, implicitly defend the thesis that the combination of presidentialism and democracy is an unwanted union.

This distorted view of reality comes from the findings of studies such as those published by Linz (1991) and other experts, as Arturo Valenzuela, Arend Lijphart and Alfred Stepan, on the prevailing system of government in Latin America from the *third wave of democratization*. To Linz (1991), the institutional rigidity of presidentialism produces governance crises, complicating government activity and threatening the stability of the democratic regime, being governance here understood as the ability of the Head of the Executive power in approving his agenda within the Legislative (Sáez, 1993; Lacerda, 2005).

These crises would occur because the legal systems, such as the Federal Constitution, do not own mechanisms to solve the frequent

All Latin American countries are presidential, except for Bolivia, which has a parliamentarised presidential system. The explanation lies in forming government coalitions.

conflicts between the Executive and Legislative powers. The situation could become even more complicated in political systems, which, as Brazil, combine presidentialism with other institutions, such as the proportional representation of open list or the highly fragmented party system; or even both of them. As for the existing institutional framework in Brazil, Mainwaring (1993, p. 67) points out that the union of “presidentialism in a fragmented multi-party system contributes to the difficulties in setting up an effective democratic government.”

This institutional combination would create minority governments divided in fragile and inconsistent coalitions, increasing, in turn, conflicts between the Executive and Legislative powers. This combination would also pro-

duce an institutional design that is often cited in literature as the most unable to produce efficient public policies and promote good governance. Kinzo (1988), also referring to Brazil, remembers that the remodelling promoted by constituents in the 1980s did not change the institutions that most strongly influence the electoral and party systems. For the author, “the preservation of presidentialism [...] will certainly keep on being a factor to hinder the maturing of the parties in order to become more responsive in their representative function” (Kinzo, 1988, p. 34–35).

In Brazil, according to Carey (1997, p. 68), “the electoral system creates strong incentives for legislators to cultivate personal loyalties among voters, even if it means ignoring the agenda of their party caucuses” (translation by the authors). Carey also emphasizes that, in this way “the presidents cannot count on stable legislative coalitions to negotiate their policy.” In *Neither presidential nor parliamentary*, Sartori (1993) agrees with these arguments, drawing attention to the fact that the politicians “change parties and often vote contrary to their guidance and refuse to accept any party discipline “. Under these conditions, the author concludes that in Brazil, parties “are volatile entities and with no power” and that “the Brazilian president floats in a vacuum, over an uncontrollable and eminently atomized Parliament” (Sartori, 1993, p. 11).

Another work highlights that lack of discipline of the major parties would be one of the negative

characteristics of the Brazilian political system (Mainwaring, 2003, 1993, 1991; Mainwaring and Shugart, 1993; Mainwaring and Scully, 1994; Mainwaring and Lian, 1998). In this perspective, our electoral and party systems, when compared to other nations, are underdeveloped and parties does not provide governance to those in power. Mainwaring (1993) comes to the conclusion that those responsible for the malfunction of the political system are the parties, as they concentrate politicians of individualistic vocation who, once elected, pursue their interests through patronage. Sharing Mainwaring’s perceptions, Ames (2003, 1986) points out that the Brazilian parties could hardly be considered true parties.

Presidentialism and institutional stability

From the historical point of view, the most stable democracies in the world are parliamentary. Figure 7 below presents the stable democracies, by uninterrupted popular elections, and the type of government system from 1967 to 1992. The table shows that 24 countries are parliamentary, while only four are presidential; the others are semi-presidential (France and Finland) or hybrid (Switzerland).

Perhaps the table information may have stimulated Linz and others to think about the failure of presidentialism versus parliamentarianism.⁷ Although the information should crown the success of the parliamentary system around the world, yet according to Mainwaring and Shugart (1993, p. 196)

“it is not clear to what extent presidentialism per se is responsible for the low success rate of presidential democracies.” These authors think that perhaps this low success rate is related to the least developed countries and the lack of commitment from political elites to democratic values.

Linz (1991) presents five negative characteristics related to this system of government, two of them guided by the institutional aspects and the others, on the political aspects. The negative characteristics, according to the author, could jeopardize the functioning of democracy. One aspect highlighted by the author is related to what could be considered a conflict of legitimacy between the president and the parliament. Both the Head of the Executive power and parliamentarians are elected by popular vote. When submitting divergent law proposals, both of them can appeal directly to the people as support to their authority. “Who is more legitimately able to speak on behalf of the people?” Asks Linz (1991, p. 66). The author points out that this impasse can create conflicts with a chance of breaking the regime. The deadlocks generally occur during the improvement of the draft law, in the absence of a third body that can resolve the conflict.⁸

Another negative feature is linked to the fixed mandate of the Head of the Executive power and the impossibility of re-election. In this system of government, the president is elected for a period that cannot be modified. The fixed mandate, according to Linz, is a problem, as a President considered

Figure 7 Uninterrupted popular elections and types of government systems

Countries	A*	Types of government systems			
		Parliamentarist	Presidentialist	Semipresidentialist	Hybrid
Australia	1900				
Austria	1945				
Germany	1949				
Belgium	1831				
Botswana	1960				
Barbados	1966				
Canada	1867				
Denmark	1855				
Netherlands	1848				
Island	1874				
Ireland	1921				
Italy	1946				
Israel	1949				
India	1952				
Japan	1946				
Jamaica	1962				
Luxemburg	1868				
Liechtenstein	1918				
Malta	1964				
Norway	1814				
New Zealand	1852				
United Kingdom	1832				
Sweden	1866				
Trinidad Tobago	1962				
Colombia	1958				
Costa Rica	1958				
United States	1788				
Venezuela	1958				
Finland	1906				
France	1946				
Switzerland	1848				

Source: Adapted from Mainwaring and Shugart (1993), p. 195.

A = Uninterrupted popular elections.

unpopular and who has lost the support of most parliamentarians can only be removed by *impeachment*. Regarding impeachment, it is only used to dethrone the president, as happened in Brazil in 1992, with Fernando Collor de Mello, for example, when involvement in illicit activities, such as corruption, are proven.

According to Linz, the inability to re-elect a president makes it also impossible to punish or reward the performance of the executive. As noted by the author some time ago, “a president who cannot be re-elected is not responsible” (Linz 1994 cited Mayorga, 2001, p.101). As for re-election, it is important to point out that that this practice exists today in many constitutions, among them the Brazilian.

The third negative feature is that the Presidency of the Republic is that it is not divided. In other words, as the old saying goes, “the winner takes all and the loser sucks his thumb.” If the party of President has enough support in the Legislative Power, the president will have no incentive to share his government’s composition with the other political forces within the Legislator. As we know, such a situation will depend largely on the type of party system. In Brazil, where fragmentation is significant, it is unlikely that the party of the president gets the majority. Thus, the solution is to split the government with other parties to ensure governance and approval of the agenda of the Executive Power in the Legislative. In other words, this means creating a coalition that allows the

coordination of the governance activities, as explained by Limongi (2006, p.19): “Presidents would always be forced to form coalitions to govern, even, as paradoxical as it sounds, if his party were majoritarian. This is because coalitions would be formed not only in accordance with the party’s discretion. Or rather, the usual method of coalition formation would be insufficient to provide the political support necessary for the president. Federalism, the power of governors and the diversity and heterogeneity of the Brazilian society, more than the number of parties, have made coalitions mandatory.”

As a rule, if the President wants to govern effectively, it must be done through coalitions. For some analysts, the institutional design of the Brazilian electoral and party systems encourages politicians to have an individualistic behaviour to win a seat on the Legislator. Once elected, they carry to the legislative arena their selfishness, and in this space they act without regard to the party, weakening parties (Mainwaring, 2003; Ames, 2003). This means that coalitions are doomed to failure, bringing instability to governance and boosting the imbalance between powers.

However, some studies present a re-reading of the Brazilian political system. These experts are opposed to part of the literature on the subject, rescuing the role of parties in the decision-making process and the importance of legislative organization within the two houses of Congress. They provide empirical evidence that

the legislative processes are centralized and favourable to the government in approving their agendas in Brazil.

The previously mentioned problems created by the electoral and party systems are eliminated in the legislative arena, which would ensure more stability to the collective decisions. Governance would not be undermined by possible problems caused by the junction of presidentialism with the electoral and party systems. In the legislative arena the parliamentary behaviour would be influenced by the parties in their votes. By analysing the roll calls of 1989 and 1999 and the rules of the decision-making process during this period, the work of Figueiredo and Limongi (1999) mentions party discipline in the House of Deputies, which means that instability is far from occurring. Stability is the pattern of the collective action in that arena.

As stated by the authors, “the existing theory tells us that there should be no party discipline in the Brazilian Congress. [However], on average, 89.4% of the plenary vote in alignment with their leaders is a high enough rate sufficient to accurately predict 93.7% of roll-call votes” (Figueiredo and Limongi, 1999, p. 20). At the same time, the plenary would also be influenced by the rules of the parliamentary game, which are highly centralized in a small group, called “the leader’s college”. It is important to say this college operates as an auxiliary organ of the officers of the House of Deputies: it prepares the agenda of propositions to establish the order of the

day and, what is more important, interferes substantially in decisions through the procedure for urgent matters (Figueiredo and Limongi, 1999). That means this instance not only concentrates the decision-making power, but also controls the agenda of the legislative work.

The contestation of the ideas in the previous section was only possible because most of those studies were founded “on formal thesis, basing their arguments on logical expectations that the theoretical models advocate for the reality, without, however, paying attention either to political reality itself and for other variables not covered by models” (Peres, 2000, p. 92). This is precisely the methodological approach adopted by Figueiredo and Limongi, who proposed a new analytical direction, shifting the analysis of electoral and party systems for decision-making within the legislative branch. The secret of success would be in the legislative organization itself and in the strict control that some institutional players – the President of the Republic, the presidents of the boards, the main standing committees, and especially party leaders – have on the majority of parliamentarians in the legislative houses.

Returning to the work of Linz (1991), presidentialism, according to the author, creates a sense that the legitimacy of the popular mandate lies in the president. This fact is one of the major problems of the electoral and party systems that encourage the personification of the politician. This finding constitutes the fourth negative characteristic presented by Linz (1991).

The president discards the existence of other political institutions, such as the Legislative Power and even parties, starting to govern with executive orders, called provisional measures, without the direct support of these institutions. Finally, the last negative characteristic noted by the author is related to the access of persons with little or no political and administrative experience to the coordination of the government. Their power can have drastic consequences for democracy. The political history of Latin America has already witnessed cases of this nature, such as Brazil's Fernando Collor and Peru's Alberto Fujimori.

A kind of conclusion

We should be sceptical of the negativity regarding the relationship between presidentialism and other political institutions, without risking a biased analysis of the entire system and not see the positive aspects presidentialism presents. Mainwaring and Shugart (1993) noted the relevance of the negative characteristics attributed by Linz to presidentialism and concluded that they need to be

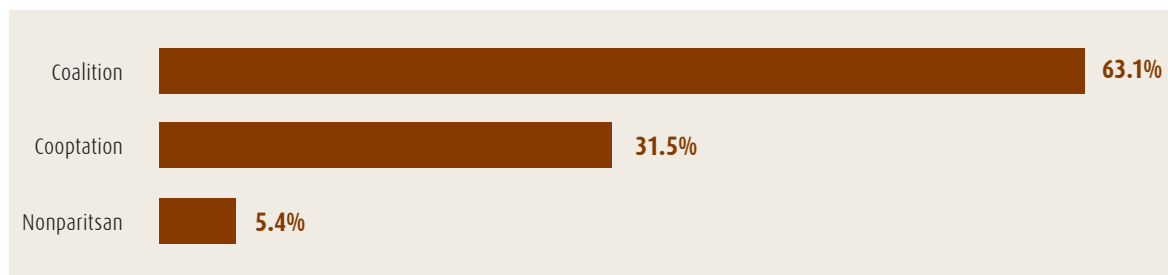
re-evaluated. The authors showed that the parliamentary system also has its problems; one of them – also shared with the presidential system – is the possible conflict of legitimacy. According to Mainwaring and Shugart (1993), this conflict is inherent in all systems that adopt some form of power-sharing. The authors also acknowledge that the fixed term of the president hinders his replacement in case of loss of support, but in return, the chief of the Executive Power can recover support over the mandate, without interrupting his government program, as seen in the parliamentary system.

Although Linz has attracted the attention of experts and members of the political elite to the problems generated by presidentialism, many democratic regimes with this system of government have survived worldwide. What would explain, then, the stability of presidentialism in Latin America, particularly in Brazil? It is curious that all Latin American countries are presidential, except for Bolivia, which, according to Mayorga (2001), has a parliamentarised presidential system.⁹ The

explanation for such a permanence of the system lies in forming government coalitions.

As for the coalition, Amorim Neto (1994) notes that in 25 years of presidential government in democratic periods (1946–1964 and post-1988), most Heads of the Executive Power in Brazil opted for coalition formation. Figure 8, below, shows the types of government in Brazil in both periods, and it can be observed that 63.1% of them formed coalition governments. This information means that most governments formed in the two Brazilian democratic experiments followed the party support building strategy in Congress, i.e., an agreement between the Head of the Executive and the parties that make up the base of support for the government. This strategy aims to articulate a majoritarian composition around the President's party. When there is no agreement between the President and the parties, the Head of the Executive has two options: to form a government by co-optation or make a non-partisan government. From over the periods 1946–1964 and 1988–1994, 31.5%

Figure 8 Types of government in the Brazilian presidentialism – (1946-1964/1988-1994)



Source: Adapted, (Amorim Neto, 1994 apud Peres, 2000, p. 93)

were co-optation governments, while only 5.4% were non-partisan governments.

Some analysts call this coalition of government “coalition presidentialism” (Abranches, 1988), “presidentialism of commitment” (Lanzaro, n/d), or even “streamlined coalition presidentialism”, as other experts prefer (Huber, 1996 apud Santos, 2003). Such designations are mere linguistic adjustments, because the most important is that the arrangement holds the balance between powers to prevent instability in governance. This balance, according to Nash’s theory, is the situation in which no player has an incentive to deviate from certain course of action, considering that the others will not have it either (Sánchez-Cuenca, 2004; Gibbons, 1992; Pérez, Jimeno and Cerda, 2004).

As we have seen, Linz points out some negative characteristics of presidentialism that constitute a danger to the stability of democracy. This danger could be more critical if the presidential system were combined with a multiparty system and with open-list proportional representation. However, the forecasts by Linz were not confirmed. The secret of stability, especially in Brazil, is in the so-called coalition presidentialism, friendly coexisting with a kind of “minotaur”, as described by Carvalho (2003, p 211.): “[...] On one hand, an English legislative head – a congress with disciplined parties, centralized internal structure and agenda monopolized by the Executive; on the other, a US electorate – a personalized vote, indi-

vidualization and atomization of the political process and, above all, a single set of incentives addressing the legislative arena: the logic of particularism, the persecution, from the elected candidates, to disaggregated benefits as a reproduction path of their respective mandates.”

Thus is Brazil: a Minotaur, which has a body (electoral and party systems) that creates fully independent actors in search of benefits to meet their goals, and a head (parliamentary system) which re-educates these players and obliges them to act in a synchronized manner within their parties, thereby offering governance to Brazil, regardless of the negative reviews about them and the somewhat diffused perception that they no longer matter to the political system.

In summary, the problems that have occurred within the political system are blocked by various instances and actors within the National Congress, the arena of the main and broader political decisions in the country. This means that, upon arrival at the Legislative Power, parliamentarians are conditioned by a structure of opportunities that lead them to follow the party guidelines, making the party an essential institution for the maintenance of the ability to govern. Despite the considerations of Moisés (2010) on the lack of confidence of the Brazilian democratic institutions, parties – which probably constitute one of the main institutions of this regime – remain a key element of governance in Brazil within the existing institutional design of the

There is a contradiction between the importance of the parties and their bad assessment. From an institutional point of view, parties do remain essential institutions.

country. In fact, without diminishing the political and social dimension of the problem, the contradiction between this importance of the parties and their bad assessment revealed in the previously mentioned survey is a matter of another nature, linked to the increasing inability of the parties in managing to mobilize society and make it identify itself with the political representatives. However, from an institutional point of view (parliamentary), parties do remain an essential institution to govern. ■

Notes

1. According to Manin, in a representative government, (1) the representatives are chosen by the represented in periodic elections; (2) in the exercise of their mandate, representatives retain some independence from the voters' preferences; (3) public opinion on political issues can be manifested without government control; and (4) the political decisions are taken in a meeting by the representatives, after the debate.
2. Dahl lists eight minimum institutional guarantees for the existence of an inclusive democracy, with large number of people: (1) freedom to form and join organizations, (2) freedom of expression, (3) the right to vote, (4) Eligibility for political positions, (5) the right to political leaders contesting support, (6) free and reputable elections, (7) alternative sources of information and (8) institutions for making government policies depend upon elections and other demonstrations of preference.
3. In the last two decades, with variations, the US elections have mobilized between 1/3 and 2/3 of the voters. In France, abstention has been growing since the late 1970s, reaching 35.91% in the first round of the 2014 municipal elections. In Brazil in the first round of the last presidential election, abstentions totaled 27.6 million votes. Along with the blank votes (4.4 million) and (6.6 million) annulled votes, the number of voters who did not vote for any candidate for president (38.6 million) exceeds the total of votes received by Aécio Neves (37, 8 million).
4. Survey Protests 8/16: profile and perception of protesters in Vitoria (ES). Available at www.uvv.br/sociologia.
5. Disinterest in parties in São Paulo is a record, shows Datafolha. Available in www.folhaonline.com.br. Access 03 November 2015. Research Demonstration 16/8: profile and perception of protesters in Vitória (ES) reached similar results. In Victoria, only 0.55% of respondents said they had "great confidence" in the parties, and 60.66% said they had "no confidence" in existing subtitles, today, in the country.
6. The representation with two shifts is used in the presidential elections, governors and mayors of municipalities with more than 200,000 voters. A simple majority, in turn, is used in elections for mayors of towns with fewer than 200,000 voters and to the Senate. The proportional representation with open lists is applied in elections for federal deputies, state deputies and councilors.
7. We cannot forget that, in Brazil, between September 1961 and January 1963, three parliamentary offices succeeded in power, led respectively by Prime Ministers Tancredo Neves (PDS / MG), Brochado da Rocha (PDS / RS) and Hermes Lima (PSB / BA).
8. In this regard, it must be said that constitutions provide for institutional mechanisms to resolve the impasse between the executive and legislative powers, for example, the veto of the president and the refusal of the parliamentary veto.
9. Article 90 of the current Bolivian Constitution states that parliamentarians will elect if no candidate for president receives an absolute majority of votes, the Head of the Executive by an absolute majority among the top two.

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Perspectives and constraints of the public social security system in Brazil



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The social security system in Brazil is once again a target for reforms under the severe fiscal adjustment that has guided the strategy of the 2015 government. Brazil is now undergoing a new reality with the steep fall in GDP, high unemployment and wage reduction. The debate about the support mechanisms of the public social security system requires different responses from those usually employed by the liberal-orthodox discourse. This article brings together arguments to prove that the most important variables of the financial equation of public social security are the level of formal jobs and wages, as well as labour productivity. Therefore, the economic policy is the main element that must be taken into account when debating the “crisis” in social security. The major structural weaknesses of a social security system also derive from the low productivity of industry that is unable to increase active workers, who are the real agents that support the elderly, sick and unemployed. Social security cannot be analysed alone: its influence in the economy must be seen as a whole.

Social Security and the Brazilian economy at the beginning of the XXI century

Public spending on social policies won a new position among the economic policy instruments after 2004, when it became one of the determinants of the dynamism of the national economy. The connection between social benefits and economic activity level was decisive. Directly activating the household consumption, this type of expense boosted the aggregate demand, for its high magnitude (12.6% of GDP in 2014)¹ and for being an income destined to a population with high propensity to consumption (needy elderly, pensioners, sick and injured people, low-income families and the unemployed).

The reduction of poverty and inequality, measured by the Gini index, was hailed as a unique historical event for Brazil and South America in

the period 2011-2014 (ECLAC, 2012 and 2012b). The mechanisms that produced this result of strong political impact were the income transfers to households; the real growth of the minimum wage; the expansion of credit to low-income people and small and medium-sized companies; and, above all, the increase of formal jobs. Such change became feasible in a scenario where external constraints were relaxed in Brazil and the South American countries, due to higher international liquidity and the rise in the commodity prices, which facilitated the region's economic growth, mostly due to increased consumption. The new growth scenario also led to the loosening of fiscal constraints, increased tax revenues, especially revenue linked to social spending in the pension, health and social care areas.

For this reason, the positive aspects of the recent history were erected against a scenario of huge structural weaknesses, which eventually shortened the social conquests, turning them only into a temporary result of a favourable cycle that began to run out in 2014-2015. From 2011 onwards, the continued downturn in the international arena and the reorientation of the domestic

macroeconomic policy to a more orthodox bias of recessive nature deteriorated the economic and social indicators, until destroying within a few months of 2015 what had taken many years to conquer. The internal components, much more than the external ones, interrupted the progress made in the first decade of the twentieth century.

It is commented in this article that the low productivity of the Brazilian economy, the loss of dynamism of the domestic industry and the contractionary macroeconomic policy in fiscal and monetary fields led, initially, to the weakening of social security policies and later, in the period 2011-2015, to their regression.

Brazil is experiencing a new reality. The current context is of an accentuated fall of GDP (which came from a rate of 4.6% per year on average in the 2007-2010 period to 2.1% per year in 2011-2014, with forecast of -3.5% in 2015), inflation well above the upper limit of the target set by the Central Bank, increase of unemployment, sharp decline of industrial production, deceleration of private investment and household consumption, as well as growth of the primary deficit in the consolidated public sector. A fiscal austerity program is producing these



indicators and flattening of social spending and public investments. The social security program was once again the target of the reforms proposed by the fiscal containment strategies. The Dilma government was captured by the same fiscal adjustment speech that has been used in Europe as an ideological tool to disassemble the welfare state.

Why was the public social security system once more the target of state reforms? How is it possible to deal with spending cuts, if the number of elderly grows every year? What are the macroeconomic variables to ensure the financial sustainability of a public social security system? The answers require an evaluation of the productive base upon which the Brazilian social security system is based.

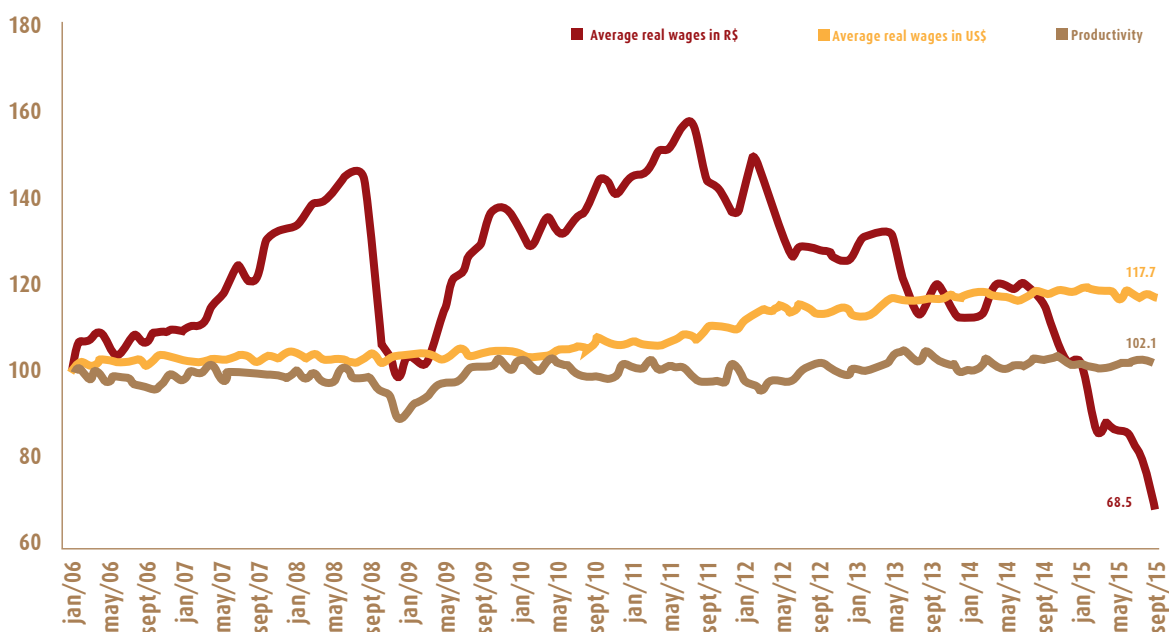
The problem of low productivity and its relationship with the social security system in the 2000s

The productivity variable is strategic in a society where the number of elderly grows every decade. The number of individuals supported by the social protection system increases in proportion to the production of each active worker in each production cycle. This means that the GDP/employed population ratio should grow to meet the needs of those who are temporarily or permanently inactive. However, the Brazilian economy has undergone with stagnant productivity in strategic sectors the last fifteen

years. As a result, the average wage rose well above the average productivity growth. This mechanism created progressive difficulties to accommodate the latent distributive conflict between capital and labour. Finally, it culminated in the recession of 2014-2015 fiscal adjustment that is producing a rapid fall in average real wages with the sharp slowdown in growth and rising of unemployment.

Figure 1 evaluates the evolution of the physical productivity of labour in the manufacturing industry and the real average wage in dollar and real.² When wages are measured in *real*, the gap between productivity and wages is large between 2006 and 2015. It seems the “decoupling”

Figure 1 Labour productivity and average real wages in US\$ and R\$
Brasil / deseasonalized series (Index number: Jan/2006 = 100)



Source: PIM-PF/IBGE e Indicadores Industriais/CNI. Elaboração: FIESP

of the wages series (in *real*) and labour productivity remains, even after the decline of real wages in 2015. However, when comparing the productivity indicator with the average salary in dollars, it is clear that the gap between these two variables is progressively reduced over the Dilma government. From 2015 onwards, the gap was closed and there was a reversal, with a sharp reduction in real average earnings (in dollars), far below the labour productivity. It is an effect resulting from the devaluation of the Brazilian real.

The assumption is that a growth cycle driven by the demand created by social policies should have been accompanied by a fast industrial development, necessary for the continuous increase in the average productivity of the economy. This did not occur in Brazil during the studied period.

In fact, productivity is a key variable in the equation of the pension system, because, firstly, the greater consumption due to the increase in the number of inactive people must be offset by an increase in the number of active workers; secondly, the social security system relies on income from wages, profits and income, thereby making productivity growth essential to increase this tax incidence base; thirdly, the jobs of the industrial sector act as a beacon for the rest of the economy, since they have higher productivity, are formalized and offer better remuneration – higher wages and more formal jobs reinforce the social security fund and increase the system coverage. Lastly, in a situation like that of Brazil, raising the average productivity is crucial to sustain the purchasing power of minimum and average wages, to avoid the worsening of the distributive conflict between profits and wages, and to avoid a greater rise in prices. The decline in the profit margin leads entrepreneurs to fix prices, to insist on wage reduction and appeal for labour and social security reforms to reduce social rights.

Therefore, it is necessary to assess the causality hierarchy that determines the behaviour of the productivity of an economy and its link with industry. The circuit begins with the macroeconomic policy. Its main variables (exchange rate, interest rate and government spending) directly affect the aggregate demand, which in turn determines the accumulation of physical capital and technological progress. Growth is essential to absorb new techniques, but not any kind of growth – only those supported by manufacturing, since they determine the trends of productivity due to its high capacity to generate innovation and disseminate better technology. The manufacturing industry operates with scale increasing returns, static and dynamic, and therefore has the highest capacity to spread its productivity gains to the economy as a whole (Nassif, Feijó and Araújo, 2012).

In Brazil, this chain of causality has not occurred. There was a combination of a conservative macroeconomic policy, which produced only moderate and unstable growth, low generation of physical capital, loss of participation in the processing industry in GDP and stagnation of productivity. That was the key feature of the productive base behaviour in the years 2000–2014. The service sector and the agribusiness for export boosted the national economy in its growth phase in the 2000s.

According to report of the Federation of São Paulo State Industries (FIESP, 2015) based



on the new series of IBGE on GDP, the share of the manufacturing industry in the Brazilian GDP was only 10.9% in 2014, compared with 17, 9% in 2004. In ten years, the Brazilian manufacturing industry lost seven percentage points of participation in GDP. Meanwhile, in 2013 this indicator was 31.8% in China, 32.9% in Thailand, 31.1% in Korea, 11.5% in Chile, 17.8% in Mexico and 15.3% in Argentina.

In a sample of twenty countries with per capita income similar to Brazil, the study shows that the growth rate of the GDP of the Brazilian manufacturing industry was the smallest between 2001 and 2013 – only 2.3% – while the average growth per year was 11.5% in China, 6.8% in India, 6% in Korea, 4.3% in Argentina, 2.8% in Colombia and 2.7% in Chile.

Teixeira and Angeli (2012, p.18) demonstrate that between 1970 and 2007, “the process of loss of economic dynamism of some of the most important countries of the world economy was accompanied *pari passu* by the relative loss, or the marginal increase, in the importance of the secondary sector in the composition of national income, whereas those that have achieved the best rates of economic growth lived an opposite experience, with a large increase in the industrial contribution on the added value of the national economy.” The decrease of Brazil’s economic dynamism can be explained largely by the loss of leadership in the industrial sector.

The social protection systems, especially the social security sys-

tem, were created in the late nineteenth century and the first half of the twentieth century as a product of the advance of capitalism of the industrial age. In the 21st century, the connection between industry and the social security system is essential when there is a progressively aging of the population for which labour productivity and jobs are of strategic importance to the financial sustainability of social protection schemes.

The relationship among the social security system with the labour market and the macroeconomic policy

The expansion of the coverage of the Brazilian social security system and their financial support over time have a strong link with the labour market behaviour and the macroeconomic policy regime that corresponds to it (fiscal and monetary policy), seen as a determinant of the pace of economic expansion and productivity gains.

The labour market directly affects the tax revenues that finance the social security system. The most relevant indicators about this are the unemployment rate, the degree of formalization of the labour force and the average income of the employed population. To ensure the payment of retirement and other pensions in the short and long term, it is essential that the macroeconomic policy aims for full employment, as that way there will be more affiliates to the system, the

income of workers will increase and the burden of pensions will be lighter.

This institutional building is essential to meet the challenge of the “demographic bomb” – a catastrophist term used to denote the aging population and falling birth rate. The problem of sustainability of a public social security system in a sharing scheme cannot be reduced to demographic determinism. It should be treated as a search for growth driven by demand to generate the highest level of employment possible, while seeking to intervene in the way income is dis-



tributed between active and inactive people. Expansive monetary and fiscal policies and an industrial policy that interferes with production, employment and productivity have a decisive role in the course of the social security system.

The balance of the social security budget in the face of an aging population will have to be pursued through policies for full employment and increased productivity. The age and the value of pensions are far from being the only determinants of the social security burden, as happens with the neoliberal pension reforms, which typically seek the adjustment of the system by raising the value of social contributions, reducing benefits and increasing the age of entitlement.

Brazil gave a good demonstration of the effects of the arrangement between the macro-economic policy, labour market and surplus finance of the social security system. The year 2003 marked an important turning point in the Brazilian labour market, which began to record systematically decreasing unemployment rates. According to data from SME / IBGE, between 2003 and 2014 the unemployment rate fell from 12.3% to 4.8%. There was systematic growth of the average income of the main job, which went from R \$ 1,771.68 in January 2003 to R \$ 2,318.36 in January 2014, a real growth of 30.8%. There was also growth in the average percentage of workers with a formal contract in the private sector in

relation to the employed population. This proportion was 39.7% (7.3 million) in 2003 and increased to 50.8% (11.7 million) in 2014. In twelve years, this number increased 59.6% (or 4.4 million additional workers).

The labour market successfully surpassed the hardest moments of the global crisis by the end of 2014. However, as of 2015 these favourable indicators suffered a huge reversal, with the adoption of an austere fiscal adjustment, a monetary policy of high interests and credit contraction. According to the Monthly Employment Survey (PME / IBGE), Brazil faced in the second quarter of 2015 an overall unemployment rate of the economy of 8.3%, corresponding to an increase of more than three percentage points in just six months of 2015 over the previous year. In July 2015 the formal jobs dropped to 11.3 million, a figure 3.1% lower than that observed in July 2014. These data are indicative of the negative potential on the labour market of an abrupt spending reduction policy by the federal government.

The data supports the view that the social security system becomes financially viable when tax policies to increase social spending policies (or any autonomous spending) boost the aggregate demand and income, and then (as a consequence) revenues from social security contributions grow, allowing the spending policy to continue.

In fact, spending on social security benefits increased substantially between 2004 and 2015.

The set of revenues of the 1988 Constitution is sufficient to fund, with no deficit, all federal government spending and social security.

Between late 2004 and January 2014, the real increase in the minimum wage was 68% (DIEESE, 2014), raising the value of pension benefits and growing the disposable income of active workers who appealed to state protection, of retirees and pensioners. It can be said that the minimum wage increase policy explains most of the expansion of the assistance transferences and social security during the considered period.

More than 82% of social security benefits are concentrated in the range of one to two minimum wages. In 2002, the amount of emitted benefits was 18.8 million. In 2015 it was 28.2 million, an increase of about 50%, equivalent to an increase of 9.6 million benefits in thirteen years. In 2002, the average value of benefits was R\$ 362.72; in 2014, it was increased to R\$ 959.15 billion (Figure 2).

The growth in social benefits and wages in the 2003-2014 pe-

Figure 2 General Social Security Regime

YEAR	Nº OF BENEFICIARIES	AVERAGE BENEFIT
2002	18.859.775	362.72
2003	19.510.519	435.94
2004	20.506.649	473.26
2005	21.149.561	495.78
2006	21.644.886	535.43
2007	22.066.263	562.26
2008	22.776.205	606.68
2009	23.534.497	657.69
2010	24.426.882	713.54
2011	25.176.323	757.71
2012	26.032.855	830.60
2013	27.009.011	899.30
2014	27.818.973	959.15
2015 (ago)	28.217.023	1.036.35

Source: Ministério da Previdência, Boletins Estatísticos da Previdência.

riod had positive effects on the revenue collection of social security contributions, the only revenue that grew consistently above GDP in this period every year, even after 2009, when the internal effects of the global crisis were already being felt (Figure 3). These contributions paid by employers, employees and self-employed, are the main source of social security revenue. Therefore, the virtuous circle of financial sustainability of public social security systems has as its starting point a fiscal policy to increase spending to expand the aggregate demand and growth. The increase in tax revenues (a result of growth of wages and profits) closes the circuit, making the system self-sustaining.

Tax exemptions on a large scale and impact on the social security budget

During the 2000s, the PT government of Lula and Dilma Rousseff put in place a comprehensive policy of tax exemptions in order to stimulate private investment, generate employment and improve the competitiveness of the domestic industry. During the first government of Dilma Rousseff (2011-2014) the widespread use of exemptions become an indicator of the option for a strategy of strong contraction of the state's role and of assignment of a greater role to private capital in driving the national economy. However, his policy did not receive a favourable response from the aggregate investment, which showed lower growth rates. In the period 2011-2014, the average real

growth rate of this variable was 1.8% against 9.9% in 2007-2010. The exemptions deprived society from resources that could have been used more efficiently to generate well-being and growth.

Figure 4 summarizes *Ministério da Fazenda* estimates of total federal tax exemptions (or tax expenditure) for 2009-2015 and the amount of such exemptions with regard to social security, in both absolute and relative terms.

The data reports that during the slowdown period, one of the most important strategies of fiscal policy of the federal government to stimulate private investment was to reduce the tax burden on businesses. It may be observed that in 2009 the total exemptions amounted to R\$ 119.8 billion or 3.76% of GDP. In 2011, the first year of the Dilma Rousseff government, the tax expenditure was 3.52% of GDP, equivalent to R\$ 137.2 billion, until reaching the amount of 4.9% of GDP or R\$ 282.4 billion in 2015. This impressive amount that the State failed to raise in that year is greater than the sum of all that was spent at the federal level, with health (US \$ 93 billion), education (R\$ 93.9 billion), social welfare (R\$ 71 billion), transportation (R\$ 13.8 billion) and science and technology (R\$ 6.1 billion) in 2014.³

It is important to draw attention to the amount of tax waivers in the area of social security. In 2009, for example, the renouncement of social security contributions was estimated at R\$ 59 billion, corresponding to 1.85% of GDP and 49.3% of to-

Figure 3 Social Security Contributions in R\$ million

YEAR	NOMINAL VALUE	REAL VALUE	REAL PERCENTAGE INCREASE (%)
2002	71.028	141.103	
2003	80.730	146.731	4.0
2004	93.765	158.385	7.9
2005	108.434	172.992	9.2
2006	123.520	191.394	10.6
2007	140.493	208.599	9.0
2008	163.355	228.599	9.6
2009	182.008	244.459	6.9
2010	211.968	269.117	10.1
2011	245.892	292.969	8.9
2012	278.173	313.320	6.9
2013	308.557	328.336	4.8
2014	357.851	357.851	9.0

Source: Ministério da Previdência, Boletins Estatísticos da Previdência.

Figure 4 Federal Tax Exemptions

YEAR	TOTAL EXEMPTIONS	% OF GDP	SOCIAL TAX EXEMPTIONS	% OF GDP	% OF TOTAL
2009	119.861	3.76	59.061	1.85	49.3
2010	132.059	3.47	67.355	2.03	51.0
2011	137.239	3.52	68.146	1.75	49.6
2012	170.389	3.76	80.909	1.78	47.5
2013	170.016	4.10	97.731	1.97	48.0
2014	249.761	4.76	136.541	2.61	54.6
2015	282.437	4.93	157.644	2.75	55.8

Source: Receita Federal, Ministério da Fazenda, Demonstrativo dos Gastos Tributários.

tal tax waiver that year. In 2015, the estimated value was R\$ 157.6 billion, or 2.75% of GDP and 55.8% of the total unencumbered in the year. The exemptions cover the basic food basket, the payroll, the *Simples Nacional*, the Manaus Free Zone, non-profit entities, medicines, construction, machinery and equipment, biodiesel and others.

It is inevitable to conclude that the government has adopted a contradictory narrative, since it has given up the resources for social security while complaining about the supposed deficit of the social security. However, there is enough margin to raise sufficient revenues for a large development policy of the health or education systems via the selected reduction of exemptions. This strategy did not produce the expected increase in private investment; therefore, it was not converted into the generation of jobs, income and production. The most likely effect was the increased profit margins of the industries favoured. Increasing federal revenues by re-

viewing tax expenditure could extend budgetary allocations for areas facing scarce resources, such as health and sanitation, thereby having a multiplier effect on the economy and increasing of the welfare of the lower-income population. The most perverse use of the exemptions would be their relaxation (the return of taxation) in order to make the primary surplus, as seems to be suggested by the government's proposed fiscal adjustment.

The social security budget: is there a deficit?

According to Article 195 of the 1988 Federal Constitution, social security, of which the social security system is an essential part, should have several sources of income. They include the contribution of employers and workers to social security (social security contributions to the INSS), COFINS (including on imports), CSLL and the revenue from lotteries. Until 2007 the CPMF was also a source of funding of the

social security system. As can be seen, it was created with a solid financing structure, supported by a diversified revenue base that is preserved until today in the text of the Constitution. The liberal-privatizing attempts failed to achieve this change economically and politically.

Taking into consideration this set of revenues, it is possible to see that they are sufficient to fund all federal government spending on social security, health and social care, as shown in Figure 5. The sum of revenues and expenses is largely in surplus, including the administrative personnel expenses, cost and payment of the debt of each sector. The surplus was R\$ 56.7 billion in 2010, US\$ 78.1 billion in 2012 and R\$ 56.4 billion in 2014, despite the enormous tax exemptions over the last five years. The figures show more than that. They clarify that the government spends resources for social security in a systematic manner on expenses of the Government that belong to the fiscal budget, subtracting resources that are constitutionally linked to social spending.

This information has not been passed on to the people, who have adopted a notion widely disseminated by the media: the Brazilian social security system faces a crisis of major proportions due to the growth of social security spending, thus necessitating reforms which involve cutting of social rights. There is a derogatory idea of the system – of insolvency and general precariousness – which does not correspond to reality. The data refute this thesis

and shows that the social security system has been self-sustaining, even during the recent recession, which makes the expansion of very important benefits and services to the survival of the majority of the population feasible. With the surplus of 2014 it would be possible to increase, for example, the spending on public health by 60%, which could enable a major transformation in providing such services.

The 1988 Constitution states that three budgets must be prepared: the fiscal budget, the social security budget and the state investment budget. What happens is that in practice the budget execution, the government has not three, but two budgets, the investment budget and the “fiscal budget and social security”, which consolidates all revenues and expenses by unifying the result. Using this device it is

not possible to identify the transfer of social security budget funds to finance expenditures of the fiscal budget. To make the picture even more confusing, isolate the pension income and the rest of the social security budget for budgetary analysis. With this accounting artifice, there is an attempt to show that it is necessary to transfer more and more resources to cover the alleged leak of social security.

Figura 5 Revenues, Expenditures and Results of Social Security (current values in R\$ millions)

Revenues ¹	2007	2008	2009	2010	2011	2012	2013	2014
Receita Previdenciária	140.493	163.355	182.008	211.968	245.892	278.173	308.557	357.851
CSLL	34.411	42.502	43.592	45.754	57.845	57.488	65.732	65.534
COFINS	102.463	120.094	116.759	140.023	259.891	181.555	201.527	195.179
PIS/PASEP ²	26.709	30.830	31.031	40.373	42.023	47.778	51.065	51.881
CPMF	36.483	3.058	2.497	3.148	3.414	3.765	0	0
Receitas de órgãos da Seguridade ³	14.255	13.528	14.173	14.883	16.873	20.044	10.923	7.415
Contrapartida do Orç. Fiscal p/EDU	1.766	2.048	2.015	2.136	2.256	1.774	1.273	1.391
TOTAL SOCIAL SECURITY	356.580	375.415	392.075	458.285	528.194	590.577	639.077	679.251
Expenditures	2007	2008	2009	2010	2011	2012	2013	2014
Benefícios Previdenciários	182.575	199.562	224.876	254.859	281.438	316.590	357.003	402.087
Benefícios LOAS e RMV	14.192	15.641	18.712	22.234	25.116	30.324	34.323	38.447
Bolsa-Família e outras transferências	8.756	10.605	11.877	13.493	16.767	20.530	23.997	26.156
EPU	1.766	2.048	2.015	2.136	2.256	1.774	1.273	1.439
FAT (seguro-desemprego, abono, outros)	17.957	21.416	27.742	29.755	34.738	40.491	46.561	51.833
Minist. Saúde - MS	45.212	50.270	58.270	61.965	72.332	80.063	84.412	83.935
Minist. Desenvolvimento Social - MDS	2.278	2.600	2.746	3.425	4.033	5.669	6.719	3.986
Minist. Previdência - MP	4.496	4.755	6.265	6.482	6.767	7.171	7.280	5.188
Outras ações da Seguridade	3.365	3.819	6.692	7.260	7.552	9.824	9.824	9.824
TOTAL SOCIAL SECURITY EXPENDITURES	280.596	310.716	359.195	401.609	450.999	512.436	571.392	622.895
SOCIAL SECURITY RESULTS	75.984	64.699	32.880	56.676	77.195	78.141	67.685	56.356

www.previdencia.gov.br; Minist. da Fazenda, Arrecadação, Análise Mensal da Receita - www.receita.fazenda.gov.br/ | Federal - www.orcamentofederal.gov.br. Informações Orçamentárias, Estatísticas Fiscais, Despesas Orçamentárias por Agregados Funcionais | Servidores Públicos nem as Receitas para o Regime de Previdência dos Militares por não pertencerem ao sistema de Seguridade Social definido | (2) Por lei, destinam-se à cobertura do seguro-desemprego e abono salarial | (3) Inclui as receitas próprias do MS, MPA, MDS e FAT. | Fonte: “Resultado Primário da Seguridade Social” - SOF, www.orcamentofederal.gov.br | não pertencerem ao sistema de Seguridade Social definido pela CF/1988.

The idea of deficit in the budget of social security is widely reported by the media with the support of the federal government. Aiming to reduce the so-called “unsustainable” welfare expenditure, the federal government held a comprehensive reform of access to the benefits of unemployment insurance, death benefits, sick pay, salary bonuses and retirement per time of contribution at the end of 2014. To preserve resources, it broadened shortages and reduced benefits. The burden of the adjustment will fall largely on workers, while the monetary policy protects banks and investment funds, burdening the public budget with financial expenses at extremely high levels.

It is not known if the economy of resources through the reduction of social spending will provide sufficient funds to pay the extraordinary expenses on the public debt, but it is known that it will reach the population who depends on

these transfers of income to survive. Between 2011 and 2014, the Dilma government paid an annual average amount over 4% of GDP with interests. In 2014, this figure reached R\$ 251 billion (almost 5% of GDP) and in the last twelve months ended in August 2015, R\$ 399 billion (Figure 6). They are sterilized resources. They do not enter the production cycle to generate jobs and income, nor are they intended to increase the supply of public services needed by people. Reducing these expenses would imply to radically change a restrictive monetary policy with low efficiency. The increase in financial expenses in the government of Dilma Rousseff reflects a high degree of conservatism in the fight against inflation, which remains higher in the years 2011–2014, reaching a level close to 10% in 2015, well above the upper target limit established by the Central Bank.

Figure 6 Expenditures on Nominal Interest

YEAR	R\$ MILIONS	% OF GDP
2010	124.509	3.30
2011	180.553	4.36
2012	147.268	3.35
2013	185.846	3.84
2014	251.070	4.90
2015*	399.483	7.20

Source: Ministério da Fazenda, STN.

Anuário Estatístico - Estatísticas Fiscais acima da linha. Elaboração própria.

(*) Acumulado em 12 meses até agosto/2015.

The reversal of the high interest rate policy and the consequent reduction in financial expenses could make room to construct a more active countercyclical fiscal policy, supported by public investment and social spending on segments have been historically underfunded, such as basic sanitation, low-income housing, urban transport infrastructure and culture.



Some conclusions

In Brazil, the idea that the social security is experiencing a financial crisis has been propagated repeatedly for more than twenty years, although figures contradict that speech. The calculation of the alleged social security deficit is not based on what is provided by the Federal Constitution of 1988, which sets forth the legal framework of the social security system that is part of the public welfare. The false social security deficit takes into account only the social security contribution revenues (to INSS), but there are other sources of income that are not considered: the contribution to social security financing (Cofins), the social contribution on net income (CSLL), the PIS/PASEP and the revenue from lotteries. This set of revenues can amply fund spending on health, welfare and social security.

We must recognize that social security is much more than a cash transfer to the needy. Spending on social security benefits has a role in leveraging economic growth. It is a standalone expense, an income transfer that is fully converted into food, essential services and product consumption, and therefore returns to the market from the hands of beneficiaries, where it boosts production, stimulates jobs and multiplies income.

Such expansionary economic policy as a driving agent of the labour market is crucial to face the problem of an aging population in the coming decades. The demographic determinism needs to be overcome by an economic policy fitted to promote growth and full employment.

The most important variables of the financial equation of public social security are the level of formal jobs and wages, as well as labour productivity. In order to avoid the risk of a collapse in the funding of the social security system, the country must grow, increase the level of formal jobs, and raise average income in the labour market to promote social mobility. Therefore, economic policy must be the main element on the agenda of the debate about the “crisis” in social security. But that is not all. In addition to the economic policy regime in place, the analysis of the social security system should consider the material framework of the Brazilian production system it supports. It is not enough to maintain social spending at high levels and generate growth. To consolidate the social changes already obtained, structural changes that increase labour productivity in the long-run are essential, and such changes depend on the investments in infrastructure, education, science, technology and innovation. The major structural weaknesses of the social security system come from the low production levels from industries that are unable to increase active workers, who are the real agents that support the elderly, the sick and the unemployed. In other words, it is not possible to analyse the social security issue alone: its influence is in the broader economic totality in which it is included. The macroeconomic variables that determine the growth, productivity and the distribution of wealth in the long-run are crucial to defining the direction of the social policies. ■

The macroeconomic variables that determine the growth, productivity and the distribution of wealth in the long-run are crucial to defining the direction of the social policies.

Notes

1. Total cost of general social security regime, of public federal employee social security and of Federal social assistance in 2014.
2. Productivity indicator by Depecon/ Fiesp with research data from PIM-PF of IBGE and the research papers “Indicadores Industriais” of CNI and “Levantamento de Conjuntura” of Fiesp. The productivity indicator measures the relation between physical industrial production of transformation and the number of hours worked in production.
3. Ministério do Planejamento, SOF, “Despesa orçamentária por agregados funcionais e programáticos”.

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Health policies in Brazil

Notes for debate on alternatives



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Health has been a compulsory subject during elections in several countries. In Brazil, the Unified Health System (SUS) is a unanimous matter, but this is an empty consensus: its ability to meet all the people demands and the quality of the service are not controversial subjects. Both the interpretations that use the argument of structural inequalities as those which present evidences of the prosperity of private health companies ignore the role of governments and the political debate. It is necessary to bring back the critics about the medicalization of life and the imposition of excluding technological standards, driven by the mercantilization of health and diseases.

The debate on the Unified Health System (SUS), on health policies in Brazil, has been rare and accidental. The obstruction of public debate on how to reconcile access – including access to new technologies – quality and cost of care for a rapidly aging population is disturbing. The immediate impact of the near absence of this issue from the public agenda is how SUS is superficially treated in the electoral programs of the candidates for President. In Brazil, the two main candidates' proposals for public health in 2014 were limited to vague statements: they reaffirmed ongoing actions, used generic terms and did not mention the volume and allocation of public spending, the opening of assistance units and increasing the number of physicians. The contrast with other countries, including some Latin American ones, is striking.

In the United States, the last presidential debate on health was the object of tough controversy about the obligatory health insurance and, therefore, the expansion of the government role. Mentioning the misfortune of those who have no health insur-



ance and suffer a heart attack, the gaffe of the US Republican candidate Mitt Romney exemplified agenda differences and became one of the key elements of the electoral dispute. In 2013, Michelle Bachelet committed herself to doubling public spending and the expansion of the state health care network in Chile. Justin Trudeau's platform included the proposal of investing US\$

3 billion over four years to provide more and better home care services for all Canadians.

The lack of controversy around the national health policy can be explained by the existing consensus on SUS, for which there can be no exaggeration: SUS is a unanimity. Political parties located anywhere on the political and ideological spectrum, as well as medical and union organizations open-

ly support the public health system. Under an optimistic approach, such a broad convergence could attest to the progress resulting from the constitutionalisation of the right to Health. Thus, the country gets close to those nations whose social protection systems may be affected, but not destroyed, by the different governments. An alternative interpretation considers that SUS is an empty consen-



MARCELO CASAL JR./ABR

sus, to the extent that it has not been discussed the ability of this entity to meet all the people needs providing quality services.

Agreeing that SUS mitigates distributive tensions and has been expanding the access and coverage is not the same as implementing a universal health system. The existing disagreements are not related to the institutional architecture and the SUS objectives, but rather to the scope of its actions and financing – the two essential dimensions to define the nature of the health system. We can praise the consensus on the need for health policies, which leaves no room for proposals that recommend the government to retract or withdraw from this sector. But that does not mean there is a lack of contradictions between social rights and the economic development. Without addressing them, it will not be possible to reach effectively equitable health policies.

Interpretations about SUS

The inclusion of the universal right to health in the 1988 Constitution was one of the expressions of advances in the democratic agenda welcomed by an alliance among the political party *PMDB*, the left parties and social movements, consolidated during the struggle for “Direct Elections!” From this point, the extent and intensity of social policies would depend on the strength (formulation capacity, convincing, management and renewal of political-party articulations) of the “Jacobin fraction.” Health was one of the areas in which there was continuity between the intention and the gesture: after the preparation of the constitutional text, leaders of the “Health movement” were nominated for strategic sectorial institutions.

Even so, changes in the political scenario after the investiture of José Sarney – who said

that social rights established by the Constituency were unviable – affected SUS, especially because it was not established the budget for Social Security established in the Constitution, which would guarantee the provided financial transfers. In addition, the occupant of the institution which unified the welfare medicine with the public health agencies was replaced. Despite the huge administrative renovation that resulted in the creation of a modern Ministry of Health, equipped with the powers to play the role of national Health authority, it was not possible to make essential changes in the supply of services for individual care.

Adopted by the New Republic to become perennial, the underfunding of SUS prevented the organization of a public health care network to provide sufficient health care, with good quality and more homogeneous in the national territory. Old issues, such

There is no consensus on the two essential dimensions to define the nature of the health system: the scope of SUS objectives and their financing.



VALTER CAMPANATO/ABR



ARQUIVO / ABR

as regional disparities, the concentration of resources in some cities and the predominance of private hospitals and beds were not resolved and, in certain fields, got accentuated. Fernando Collor de Mello's election reiterated the structural limits to the effectiveness of SUS and emitted favourable signals to the intensification of the private entrepreneurship of Health. Governments of different ideological extractions and coalitions nucleated by PSDB and PT, although with nuances, continued the restriction scheme of a high-quality and universal SUS.

Over time, there were moments when hopes were renewed of expanding and implementing Health policies with universal standards. The successful program

against AIDS and the anti-asylum reform demonstrated SUS potential. In the second mandate of President Lula, the appointment of a health officer for the Ministry of Health and promises of allocating funds from the Compulsory Contribution on Financial Transactions (CPMF) for health seemed a good sign of the return to the constitutional SUS. However, the extinction of the CPMF strengthened the conception of a SUS conditioned to decisions from the "society" or the "Parliament", as if SUS were a new policy and depended solely on new sources of funding, and not an essential project for democracy.

A significant portion of Health professionals and civil society organizations sympathetic to PT governments adopted a defensive

After the promulgation of the 1988 Constitution, leaders of the "Health movement" were nominated for strategic positions in the Ministry of Health. It assured continuity between the intention and the gesture.



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Health has been the main cause of complaints in the public opinion polls. In the IBOPE survey released in March 2015, 89% of respondents disapproved the health policy of the federal government.

speech on the obstacles of SUS. Sometimes this speech used metaphors, as if SUS were in childhood or adolescence, struggling for growth, or as if we were watching a new battle of David (the valiant public health agent) against Goliath (the capitalists operating in the sector). Both the version emphasizing the temporal dimension and the one referring to the correlation of forces leave aside the role of governments and the political debate.

Although small, the explanatory potential of such analogies between, on the one hand, social projects and construction and, on the other, biological cycles of life and an immutable structure, are tempting. In addition, there is the past of arduous struggles for social rights. If it is not important to understand the present, the

statements on the existence of an immature process of achievements, still under construction, may solve the issue. Abstracting the present facilitates issuing optimistic assessments, more related to the prophecies of the inexorably great destiny of a country of great wealth.

But the lack of polar positions on Health policies can also be interpreted only with condescension. The sectors that were opposed to approving the right to health during the preparation of the constitutional text did not need to express a contrary position to SUS, to the extent that private businesses thrived. Being cause or consequence, there is a change in the positions of the big health business entrepreneurs, manifested in explicit support to PT leaders and governments.

The rarefied debate

SUS goes and does not go well. Between 2003 and 2008 there was a significant expansion of the access of the population to health care: the proportion of people who consulted with doctors increased from 55% to 70%, and the differences in the use of these services decreased between the first and the last range of income. Even so, health has been the main cause of complaints in opinion polls. In the IBOPE survey released in March 2015, 89% of respondents disapproved the health policy of the federal government. Such unwillingness also reflects, of course, a specific situation of instability of the government coalition, although the high dissatisfaction with health has been shown in previous surveys. In December 2009, in the context of high approval of Lula's government (83% approval), health was assessed as worse than education.

In another record, of the political priority, SUS also appears battered as a state policy. The recent delivery of the health institution to a part of the *PMDB* bench, unequivocal statement of commitment to health goals, explains that health is still understood as an accessory program, peripheral to the core of public policies: health was seen as a "ring", and not as one of the "fingers".

The mismatch between increased opportunities for access to health services and the increase in complaints can be explained in two ways. The first, most widespread, is referred to health as a bottomless pit, with increasing

demands, impossible to be met both in care and financial terms. The second one considers the problems of rationing and quality of health actions. These are divergent diagnoses, emanating opposite recommendations. Those who share the idea of health as an eternally embattled area consider that there is not much to change: nothing will be enough and everything will generate new problems. In the opposite direction, there are those who consider that appropriate health policies are those that respond to the demands and needs related to the current morbidity profile, positively affecting the living conditions.

The discourse that considers public intervention in spheres of daily life related to social risks as innocuous or even malefic is also the subject of powerful business group activities and it is not restricted to health. A study on social security tried to demonstrate that the low savings rate in Brazil is associated with high coverage of protection for the elderly: wellness programs could stimulate "buzzer behaviour." Transposed to health, the scope of this argument decreases, assuming that the primary health care should be a public responsibility.

There is consensus on the need for state intervention in health, but there is also a dispute between two SUS conceptions. The first defines it as a component of social protection policies, part of the process of distribution of care, social services and benefits generated by the use of taxes, considering the health-disease binomial as socially determined. The

second, which has many supporters, is the SUS for the poor, an assistance program to those who "cannot pay". In practice, the two inspired health policies in different governments of different party hues. The psychiatric reform, which joins the original matrix of SUS formulation, was approved during the administration of Fernando Henrique Cardoso, while the extension of coverage for emergency and dental care occurred in the Lula government.

Therefore, it is incorrect to establish an unambiguous relationship between the macroeconomic policies of the coalition that won elections and the health policies. The common point to all subsequent governments to the 1988 Constitution is the underfunding of SUS and the release of transfers, direct and indirect, in the form of subsidies and tax deductions for private companies that sell plans and health care. Taking from SUS with one hand and giving with the other to the private sector has become a permanent practice of the federal government. In 2016 the federal budget for health will be proportionally lower than in 2000 (13.2% and 14% of net current revenue), while in the same period the tax expenditures for private health spending increased from R \$ 2 billion to R \$ 20 billion.

Politicians, businessmen and union leaders are at least sceptical in relation to an effectively universal SUS. Some estimate there is a balanced situation: SUS serves the poor with its meagre resources, while the segments of higher

income, those who “pay twice” (SUS and private plans), deserve tax exemptions on health expenses. Others believe that everything related to health will be subject of new complaints: this is a conflagrated sector, especially by the media, that “only discloses what does not work.” For many municipalities – the final line of the service problems – health has become an inconvenience. The opening of new care units by the federal and state governments with no resources to hire staff and funding created ghosts facilities.

The debate on SUS, which acquired visibility in the process of preparing the constitution, flew back to the academic institutions. It is attributed to the pragmatism of governance the fact that 70% of donations from the health businesses in the 2014 elections were destined to PT. The rationalization policies restricted the scope of health activities, prevented the sharing of resources of Social Security and did not restrain the past processes of fragmentation and segmentation of the health system. There are two public health policies: SUS, with its strengths and weaknesses, and the political and financial support for privatization. In common sense, SUS is complemented by private plans. It was left to the technicians the arduous task of proving that universal health systems are exactly those which recognized that the subsidized privatization competes with public health care.

Even when economists such as Paul Krugman (2015) and the orthodox Kenneth Arrow (1963) talk about the impact of market imper-

fections on health, their positions have little impact. A rarefied debate is functional for defending the private efficiency in relation to the public one and the idea that the universal systems are not a vector for reducing for inequities. The exchange between result and cause has as its corollary two interpretations: on the right, SUS would only be feasible in a richer and more equitable country; on the left, after a socialist revolution.

In the early 2000s, the limits of SUS became visible not only by the repetition of speeches contrary to universal social rights and the return of the proposals of privatization and capitalization of Welfare, but mainly by budget constraints and the priority given to targeted social policies. Public policies have been renewed in support of companies of services and commercialization of health plans, and the gap between demand and supply of care was consolidated. The expansion of coverage for medicines, with the People’s Pharmacy Program (*Farmácia Popular*), and mobile emergency assistance with the Emergency Medical Support System (SAMU) was announced and implemented with some independence from the SUS.

More recently, a constitutional change allowed the role of foreign capital in any health activity. Criticisms from experts, based on the synergy between the budget cut for SUS and the raising of international resources, were answered once again with the argument that the strengthening of the private sector does not concern SUS – as if the fact that Brazil has the sec-

ond largest market for private plans in the world were a natural and inevitable event. The political and financial connections between health entrepreneurs, political parties and coalitions that manage the country are not seen with bad eyes. On the contrary, the social columns have registered services provided to politicians of diverse backgrounds and party coalitions in the private hospitals São Paulo, as well as their stays in the vacation homes of health entrepreneurs. These may not be acts of bad faith, but they reflect the consent of or resignation to a health system that segregates the care between poor and rich people. They carry prejudice and ignorance about the universal systems, along with the belief in individualized strategies as responses to health problems that are, in fact, collective. These pragmatic conclusions reiterate the evidence of inequalities and share the ideology according to which access to health actions should be regulated by the ability to pay, rather than by health need.

The surveys available do not cover the degree of understanding in relation to SUS and what is expected from it. Public debate of the subject is better illustrated by what has not been said: one can say that SUS “never got off the drawing board” or “it is a great model, but in practice it did not really work,” or that “it is the greatest inclusion policy in the world.” These assessments are inaccurate. This is not another episode of “we got it, but didn’t take it home.”

The primary task to discuss health policies is to draw the strands together, take back the crit-



The opening of new care units by the federal and state governments with no resources to hire staff and funding created ghost facilities. For many municipalities, health has become a considerable inconvenience.

ics on medicalization of life and the imposition of excluding standards of consumption of technologies, driven by the mercantilization of the health-disease process. The constitutional right to health is not limited to access of health care activities; it must be extended to the protection against risks, especially social ones. An agenda of health policies should be built in conjunction with policies for cities – transportation, security, labour and income – and dialogue with the gender, race-skin colour and ethnic identity policies.

Subsidies for an agenda on health policies

It is needless to detail the construction of the numerous paths which led to structuring the current Brazilian health system. It

is enough to remember that the state intervention in health care has been extensive and intense throughout our history. In Brazil, tensions do not refer to state intervention. Discounts on income tax are considered due; they are rights. However, SUS tends to be seen as a favour.

The protests in June 2013 are a reason to reflect on SUS, on the need to understand its bottlenecks and transform knowledge into action. We will move forward if we are able to recognize the interdependence and the structural bottlenecks, but also the possibilities for better use of what we have, face the problems of resources and management of health professionals, from training through motivation and on to evaluation. The memory on SUS successes and failures can, at least, warn and prevent us from committing the same mistakes. Over time, it has become clear that a free and high quality health system is the answer to the needs – both old and new – of society.

In the contemporary Western world, health systems have been classified according to a typology that separates them according to the nature and extent of the state intervention in finance, management and service delivery. The universal systems are those in which all citizens have the right to health through the access to the available care and services. The meritocratic systems are based on social insurance. The third type of system is called residual, in which the state intervention is limited to focused assistance on particular population groups defined by socioeconomic status, pathologies, disabilities and age. The paradigms of this classical type are, respectively, England, Germany and the United States. After World War II, universal systems were consolidated in Europe. In the United States, non-profit organizations of state and national scale were constituted, and later commercial insurers entered the system.

Although SUS has been inspired by the English National Health System, it should not be preserved in formaldehyde. Demographic and technological pressures on health should be taken into account when applying the consumption of medical and hospital procedures or building relations between citizens and state. Life expectancy has increased rapidly. Currently, health systems need to deal with more demands for attention in the long run, such as hypertension, diabetes and cancer.

Investments in health should be directed to prolong life with quality, serving people outside hospitals, preventing hospitalizations and respecting the expectations of users and patients. Brazil has a worn-out SUS, but its framework is a universal system, as recommended by experts on the subject (Nolte and McKee, 2008). It is necessary to update it, provide it with material and symbolic resources, as well as agile administrative instruments

It is essential that the National Health Agency (ANS) ceases the role of trading post and assumes the role of private plan market regulator, including the reimbursement of SUS resources.



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to ensure participation and autonomy of users and health workers in policy decisions and care alternatives.

The first point of an agenda capable of aligning health with economic and social development is the strengthening it as a universal value by reasserting health as a right. It is necessary to expand and qualify the public provision of health services, including the renovation of the physical facilities and equipment of the university hospital network and health departments. The philanthropic units should be encouraged to act as if they were public, intervening in the process of training and quality assessment of the activities of public health professionals. Another important aspect refers to the expansion of the domestic capacity for research and technological innovation and manufacturing health supplies, a consensus for which had also been merely formal.

The second axis of proposals refers to the false public-private quandary. The clarification of the public-private overlapping of the Brazilian health system can contribute to making government decisions that observe differences between the time horizons and sanitary responsibilities of the agents that represent the financialisation of health and of the ones who are SUS supporters. Therefore, it is necessary to demand the business entities of the productive sectors, such as federations of industries and unions, position themselves.

In other words, the contradictions and conflicts of interest

must be explained to find new possibilities for a relationship between public and private sectors that are in line with the universalization of health. Therefore, it is necessary to formulate and implement a national pricing policy focused on the “destratification” of the attention on health care in Brazil. Charging services based on price tables with different values according to the ability to pay creates inequities that can be avoided. Naturally, the effort for standardizing prices must be supported by the health departments, medical institutions and the broadly disseminating the price of health activities and actions.

Another essential measure to bring transparency to the state intervention in the financing of the private health sector is by imposing limits on tax waivers, both with respect to deductions and exemptions of taxes by companies of the sector. Exemptions and deductions are obtained via their public appeal as relevant to health, but they catalyse inequities.

The third point of an agenda to streamline SUS refers to the development and implementation of quality care standards. The creation of a SUS quality institute with the autonomy to assess and monitor the public and private network, and standardize health actions and activities, requires little financial investment and affirms the centrality of SUS as health authority, with universal values and standards.

Regarding private plans, it is essential that the National Health Agency (ANS) ceases the role of

trading post and assumes the role of market regulator, using the available legal means to establish entry barriers for plans with limited coverage, to charge reimbursement from SUS, and to punish companies that do not comply with legislation. Regarding plans and hospitals, it is important to raise, discuss and disclose the amount of funds invested in these companies, in terms of tax waivers and deductions, as well as account for the loans and credits granted by state banks. ■

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The unfair Brazilian tax system



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Although tax reform has been considered a national priority, it seems to have been condemned as an eternal project that is caught in a two-front conflict over distribution: one regarding the distribution of the tax burden among the members of society and the other over the disagreement among the federal entities. The Constitution prescribes principles for a fairer tax system, but since the 1990s there has been an increase in the tax regressivity in the country, burdening the poor and income on labour.



For many years, reform of the Brazilian tax system has been considered as a national priority, but it seems to have been condemned as an eternal project. Although there is consensus on the need for reform, there has been no progress on this discussion. After the Constitution of 1988, several projects¹ were submitted by the Executive Power to the National Congress and many parliamentarians proposed more profound changes in the Brazilian tax system. The probable hypothesis to

explain the lack of progress of a tax reform is that it faces a two-front conflict over distribution: the first refers to the distribution of the tax burden among the members of society, and second to the disagreement among federal entities, especially the states that hold constitutional powers to raise the country's main tax, the tax on the circulation of goods, and the rendering of interstate and inter-municipal transportation and communication services (ICMS).

With the worsening of the fiscal situation in the past two years, there is once again room in the country's agenda to discuss the issue of tax reform. Although Brazil has practiced over the last decade the largest primary surpluses in the world², last year the primary result of the central government was in the red: -0.34% of gross domestic product (GDP).

Given this situation, the federal government has announced a policy to cut public spending, mainly on expenses related to



social rights: pensions, disability retirements, family prison aid, salary bonuses, unemployment insurance and fishing closure insurance. At the same time, the adoption of recessive economic policies in the new mandate of President Dilma Rousseff has produced a drop in tax revenue: in September 2015, revenues recorded the worst result in the last five years. Data released by the IRS shows that in the first nine months of 2015, it totalled R\$ 901.05 billion, with real decrease of 3.72% over the same period of the previous year. The government sent to the National Congress the reform project of the provisional contribution on financial transactions (CPMF), considered one of the alternatives for cash reinforcement, instead of taking the opportunity to carry out a wider debate on tax issues.

A tax reform proposal in Brazil should include a return to the principles of equity, progressiveness and contributive capacity, aiming to achieve greater fiscal and social justice, together with the redistribution of income. The taxation of income and assets has never occupied a priority on the national agenda or in the tax reform projects after the 1988 Constitution. Thus, this is a proper time to recover the basic constitutional principles of taxation justice: equity, contributive capacity and progressiveness. Taxation is one of the best instruments to eradicate poverty and reduce social inequalities, key objectives of the Republic, as defined in the 1988 Constitution.

This paper presents two main sections: the first rescues the tax principles of the Constitution and points out the regressive changes in the tax system; the second analyses the profile of the Brazilian tax system, identifying the tax injustice in the country. In the final considerations we present brief indications for a tax reform able to reduce the regressivity of the system.

Tax principles and regressive changes in the tax system

The Constitution of 1988 established a set of principles that constitute an important basis for building a tax system based on fiscal and social justice. They start by the solidarity that is present in all tax principles: isonomy, universality, contributive capacity, and essentiality. The taxation should preferably be direct, personal and progressive. (Salvador, 2010).

In Article 150, tax equality is guaranteed, since the unequal treatment of taxpayers in an equivalent situation is forbidden; no distinction due to professional occupation or function, regardless of the legal designation of the incomes, titles or rights, is allowed. Thus, the amount that each individual contributes to the public expenditure should reach all citizens who are in the same legal situation, with no privileges to individuals or social classes. Tax law should be the same for everybody, and should be applied equally. (Hickmann and Salvador, 2006).

However, the constitutional principles which enabled a new design for the tax system were not put in place after the promulgation of the Constitution. During the Sarney government the progressivity of the income tax was reduced, contrary to what was established in the Constitution. From the nine brackets of 1988, only two remained in the following year (they are currently four).

According to Oliveira (2006), changes in the part of the Constitution regarding taxation addressed the decentralization of collections, which was the opposite direction of the centralization carried out during the military dictatorship. The author also highlights the greater commitment to equity from the constitutional text, aiming to make the tax system fairer from the fiscal point of view, thus better distributing its burden among members of society. The decentralization appeared in the increase of fiscal jurisdictions of the subnational levels and in the significant increase in the participation of funds from states and municipalities.

The economic policies of the 1990s were disgorged from a tax law that undermined the progress made in the Constitution. Questions regarding state intervention in the economy and the so-called “fiscal crisis” established new grounds for the extraction of resources from society via taxation. The new arrangement of macroeconomic policies nullified any attempt at economic development; the definition of the tax regulation would be a

PT governments did not submit tax reform proposals. The tax measures adopted in the last twelve years were isolated, with little impact on social justice and the reduction of inequalities.

key element of the “global conditions for inserting the Brazilian economy in the international market” (Bisato Jr. 2006). The very design of decentralization had been disjointed from 1993 onwards, with the decoupling of resources from social contributions, which are not shared with states and municipalities.

The changes in the infra-constitutional legislation held in 1995 weakened the basic principles of the tax system of the 1988 Constitution, exacerbating distortions and deepening the regressivity of the system. The changes, which used ordinary laws and regulations, transferred the burden to the labour income and the poorest population, changing the profile of the collection.

The analysis of Farias *et al* (2006) and Salvador (2010; 2014) point out the main changes that weaken fiscal justice in Brazil:

a) the exemption from income tax on the profit shares to individuals, eliminating the withholding tax on profit shares and dividends for results obtained as of January 1, 1996, for both domestic and foreign resident capi-

tal partners. Prior to this change, the rate was 15% (Law No. 9,249/95, article 10.);

b) the institution of “interest on equity”, which is the ability of firms to remunerated themselves with interest. In practice, this means a reduction of the tax base from income and social contributions from net income taxes, besides being a secondary form of distribution of profits and dividends (Law No. 9,249/95, article 9.);

c) elimination of the rate of 35% of the personal income tax, reducing the progressivity of this tax (Law No. 9,250/95);

e) increase in the rate of personal income tax from 25% to 27.5% (Law No. 9,532/97, article 11.);

f) increase in the number of income tax declarations, since the tax table ceased to be corrected (1996–2001), by taxing the lowest-income bracket (Law No. 9.430 / 96). There was an increase in the number of taxpayers due to the increase in the taxable income of high contributory potential.

g) reduction to zero of the income tax rates and CPMF for foreign investors in Brazil, guaranteed by the Provisional Measure # 281 (02/15/2006). Quotas of exclusive investment funds were offered to non-resident investors who own at least 98% of federal public securities. The major beneficiaries of the measure were the banks. Today, these transactions remain exempt from income tax as well as taxes on financial transactions.

h) significant changes in the tax treatment of financial applica-

tions (Law No. 11.033, of 21/12/2004), favouring the investors in the financial and stock markets. For investments in the so-called “investment funds” and other fixed income investments, a decreasing taxation system was adopted, according to the term of investment, ranging from 22.5% (up to six months) 15% (in applications over 24 months).

During the first government of President Dilma Rousseff, the main initiatives regarding the tax system were exemptions³. The government did not take the initiative of introducing a new tax reform proposal to the National Congress (Salvador, 2014).

A balance of the tax measures adopted in the last twelve years indicates that they were isolated, with little impact on social justice and the reduction of inequalities (Ipea, 2011; Salvador, 2014). Most legislative initiatives intended to obtain a tax simplification, with tax exemptions for companies and search for greater competitiveness in the international scenario. The measures aiming for some impact in reducing social inequalities were limited to the greater progressivity of rural property tax, the increase of the rate of social contribution on the net income of banks and some peripheral effects of the financial transaction tax (Cagnin and Freitas, 2011). In the last twelve years none of the regressive measures taken in the 1990s were revoked, notably the income tax exemption on the distribution of profits and dividends to individuals resident in Brazil or abroad.

In this time of crisis, the reversal of tax privileges granted to the wealthier classes could be one of the progressive alternatives, as it could allow the raising of necessary resources to maintain social policies and retake public investments, which also indicated the need for the de-concentration of wealth.

Projections by Introini (2015) indicate that it is possible to obtain a significant direct tax collection with the reintroduction of the taxation on profits and dividends received by individuals. According to data from Federal Revenue for the 2012 calendar year, R\$ 207 billion was received and declared by individuals, while the

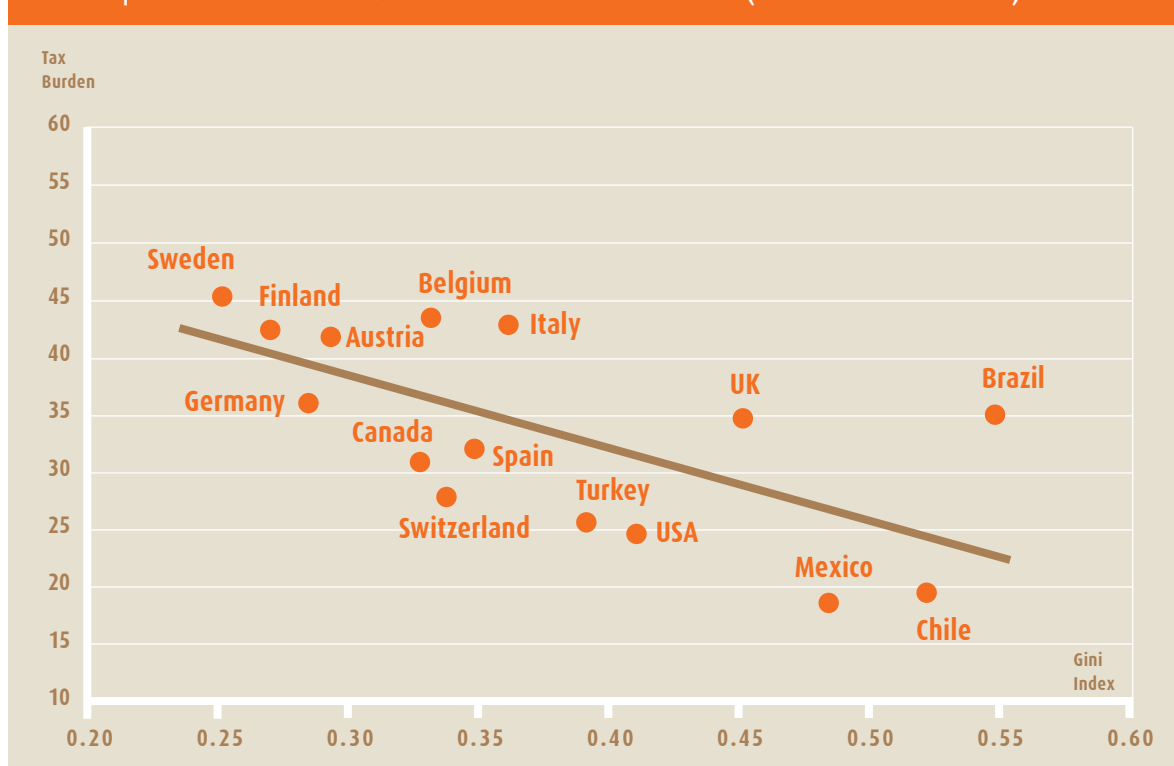
amount of profits and dividends distributed – to both individuals and legal entities, except for those opting for *Simples* – was R\$ 436 billion in the same year. Introini shows that levying an effective tax rate of 25% on such income would result in an additional revenue exceeding R\$ 100 billion only from the income tax.

The regressive Brazilian tax system

The gross tax burden, including federal, state, municipal and Federal District collections, increased significantly between 1995 and 2004, from 27% to 33% of GDP. However, the system is focused on regressive and indirect taxes,

precisely those that most penalize workers and the poor population. More than half of the revenue comes from taxes levied on goods and services whereas there are low taxes on income and assets. In the most developed countries, taxation on assets and income accounts for about 2/3 of the collection, according to the Organization for Economic Cooperation and Development (OCDE)⁴. The redistributive effectiveness of the Brazilian tax policy is low because it does not tax assets and higher earnings, which are not the result of work, such as income from rents, investments, profits and dividends (Silveira et al, 2008).

FIGURE 1 | Correlation between tax burden and income concentration (selected countries – 2010)



Source: OCDE (<http://www.oecd.org/ctp/tax-policy/tax-database.htm>) and PNUD (Human Development Report 2013). Brazil's data relates to 2011.

The strong negative correlation between the Gini index and the tax burden reinforces the idea that the tax system does not contribute to the redistribution of income in Brazil. Instead, it depresses the purchasing power of the low-income population, keeping it out from the consumer market. A study published by the Institute for Socioeconomic Studies (INESC) points out that, in several OCDE countries, the high tax burden follows a better distribution of income; however, the strongly regressive Brazilian tax system is associated with a high concentration of income. Figure 1 reproduces the INESC study data (Salvador, 2014), showing the relationship between the tax burden (vertical axis) and income inequality measured by the Gini index (horizontal axis) for a sample of OCDE countries in 2010.

The increase in gross tax burden was not distributed evenly to all social classes and income groups in the country. Figure 2 shows the 2014 collection of the three spheres of government – which reached 33.47% of GDP, according to data consolidated by the Federal Revenue (2015) – based on economic incidence. Predominately indirect taxes (on consumption) and taxes on labour income are evident. From the tax revenues in 2014, of the R\$ 1.8 trillion total, 13% comes from taxes that directly affect the income of workers, including employee contributions to social security. Taxes on consumption (goods and services) represent 51%. Considering that employ-

ers pass on to consumers the cost of payroll social security taxes, there is an indirect taxation on goods and services in practice that can represent more than 60% of the tax burden.

The main tax on consumption is the tax on movement of goods and services (ICMS) that is under the jurisdiction of the states and the Federal District. It is responsible for 20% of tax revenue, a peculiarity of the Brazilian system, since it is not common to find the main tax belongs to a subnational level in other countries.

The ICMS is a regressive tax that burdens the poor population. One of the main issues regarding this tax is the numerous rates involved and the lack of harmonization in the legislation of the country. The rates of internal op-



erations are established by the states and the Federal District and may be selective according to the essentiality of the good: basic products should have lower rates than superfluous goods.

However, the situation that prevails in the country is exactly the opposite, with the superfluous goods being less taxed than the essential goods (Lima, 2009). The ICMS accounts for 45% of the taxes levied on food, with a standard rate of around 17%. In some states there are over forty different rates for these products (Maximo, 2013). As there is no harmonization of the rules of this tax, the ICMS, in practice, is regulated by 27 laws. Moreover, “inside” collection is common practice in Brazil: the taxes are levied on other taxes, so that nominal rates are lower than the actual ones.

Indirect taxes are regressive, as they have an inverse relationship with the level of income of the taxpayer, affecting people with lower purchasing power. They focus on the production and consumption of goods and services, being transferable to third parties, i.e. for product prices. Consumers pay for it as mediated by producers or distributors who are the liable taxpayers. As consumption is proportionally decreasing in relation to income, this more sharply affects the taxpayers with lower purchasing power. According to Oliveira (2009) it is the “fetish” of the tax: the entrepreneur nourishes the illusion that the burden of the tax lies on his shoulders, but in fact it is incorporated into the company’s cost structure and actually passed on to prices.⁵

FIGURE 2 | Estimate of the Brazilian tax burden per incidence base in 2014

Taxation per category	R\$ millions Thousand Millions	% GDP	%
Total Tax Revenue	1.847.739.70	33.47%	100.00%
Income Taxation	332.879.71	6.03%	18.02%
Individual	145.206.46	2.63%	7.86%
Legal Entity	117.600.95	2.13%	6.36%
Non-allocable Retentions	70.072.30	1.27%	3.79%
Taxation on Payroll	465.301.80	8.43%	25.18%
Social Security	306.110.54	5.54%	16.57%
Employer	190.546.71	3.45%	10.31%
Employee	96.406.68	1.75%	5.22%
Self-employed	12.372.30	0.22%	0.67%
Others	6.784.86	0.12%	0.37%
Unemployment Insurance	108.781.72	1.97%	5.89%
Others	50.409.55	0.91%	2.73%
Taxation on Property	77.077.43	1.40%	4.17%
Real Estate	28.876.05	0.52%	1.56%
Motor Vehicles	32.452.96	0.59%	1.76%
Transfer of assets	15.748.41	0.29%	0.85%
Taxation on goods and services	942.666.55	17.07%	51.02%
General	646.964.09	11.72%	35.01%
Non-cumulative	408.982.43	7.41%	22.13%
Cumulative	237.981.66	4.31%	12.88%
Selective	177.527.63	3.22%	9.61%
Automotive	40.345.95	0.73%	2.18%
Beverages	16.177.43	0.29%	0.88%
Fuels	45.329.57	0.82%	2.45%
Electric power	30.828.74	0.56%	1.67%
Tobacco	9.846.48	0.18%	0.53%
Telecommunications	34.999.45	0.63%	1.89%
Foreign Trade	36.773.72	0.67%	1.99%
Taxation - Police Services	44.071.51	0.80%	2.39%
Social Security Contributions	22.885.00	0.41%	1.24%
Other Social and Economic Contributions	14.444.60	0.26%	0.78%
Taxation on Financial Transactions	29.819.44	0.54%	1.61%
Taxation on Bank Debits and Credits	63.29	0.00%	0.00%
Others	29.756.15	0.54%	1.61%

Fonte: Receita Federal. Carga Tributária no Brasil – 2014: análise por tributos e bases de incidência. Brasília: Secretaria da Receita Federal do Brasil, outubro de 2015. Elaboração própria.

Figure 2 highlights the derisory taxation of assets in Brazil: only 1.4% of GDP, which is equivalent to 4.18% of the tax revenues realized in 2011. In the major capitalist countries, according to Owens (2005), taxes on assets account for over 10% of the tax revenue: 10% in Canada, 10.3% in Japan, 11.8% in Korea, 11.9% in Britain and 12.15% in the United States.

The taxation on assets reappeared in the international debate after the publication of *Capital in the Twenty-First Century* by Thomas Piketty (2014). From the analysis of tax data and presenting extensive empirical evidence, the author demonstrates that there was a dramatic increase in the income inequality in the major economies of the world. The author makes a special appeal for taxes on wealth, preferably on a global scale, in order to curb the growing power of inherited wealth.

In Brazil, the inheritance tax is known as *causa mortis* and donation transfer tax (ITCMD), and

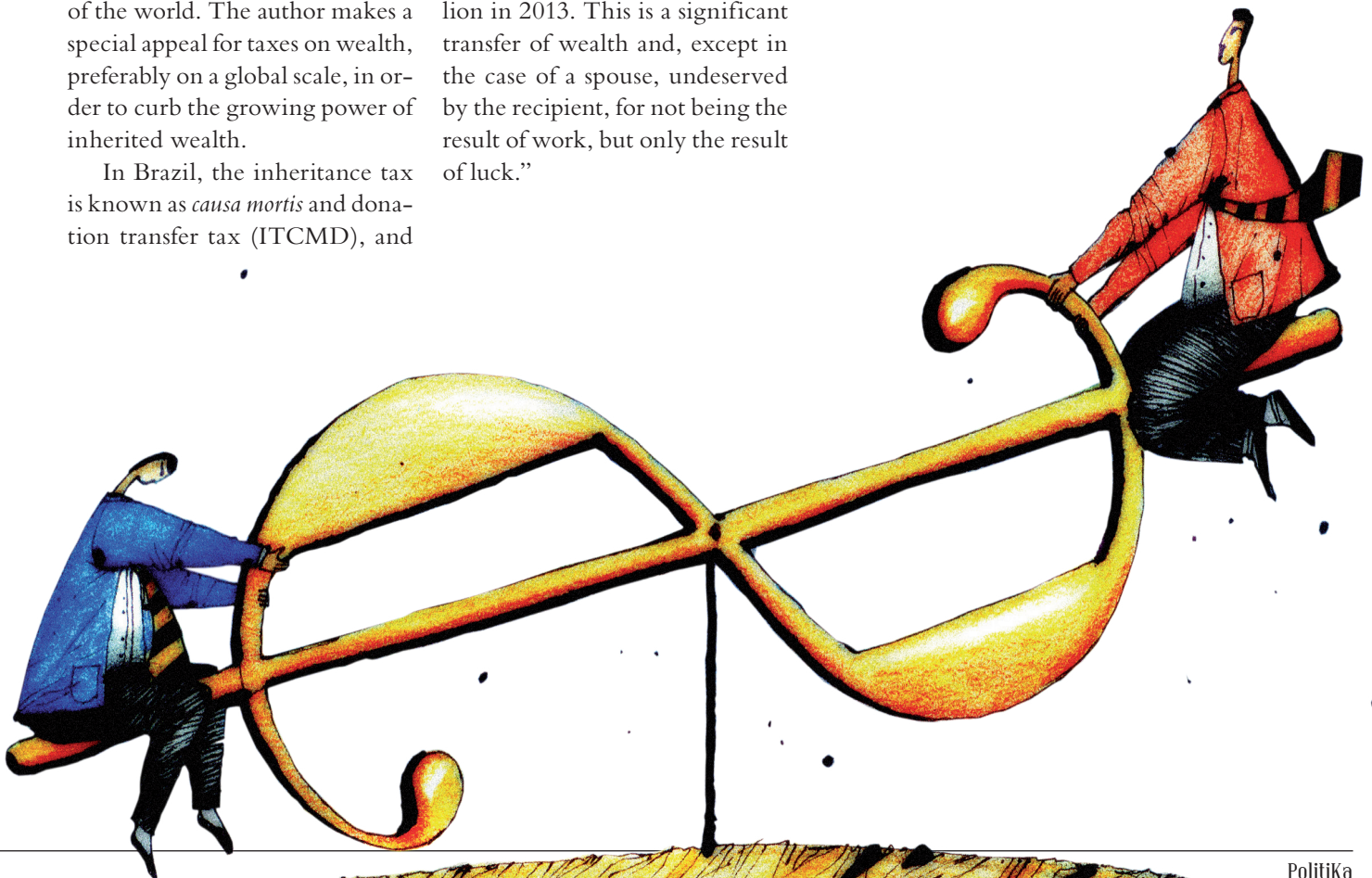
its collection is under the responsibility of the state governments. In 2014, only R\$ 4.7 billion was collected, just 0.25% of the total, according to a study by Federal Revenue (2015). Oliveira and Biasoto Jr. (2015) point out that although this tax was created in 1988, it continues to have little relevance in the Brazilian tax system and is not even regulated in many states. Sometimes it is not even charged in the property transfer by reason of death.

Based on data from the Federal Revenue, Oliveira and Biasoto Jr. (2015, p. 27) state that “the values of the assets and rights declared as received as inheritances and gifts, exempt from the levy of income tax, totalled R\$ 51 billion in 2013. This is a significant transfer of wealth and, except in the case of a spouse, undeserved by the recipient, for not being the result of work, but only the result of luck.”

The insignificant revenue also results from the low rate of ITCMD, which in 1992 was set by the Senate at 8%, but rarely exceeds 5% in the states, most of the time without progression, as São Paulo, where the sole rate is 4%.

The average rate in the OCDE countries is 15%, but there are countries such as Japan, where the maximum rate reaches 55%. In Belgium it reaches 50% and in France is 45%. In the UK, the limit of taxation on inheritance is 40%. In Latin America, Chile has a maximum rate of inheritance tax of 25% (Oliveira and Biasoto Jr., 2015).

There are other features about the tax on assets in Brazil. In the



period 2000–2011, the increase in tax revenues on assets was mainly due to the higher payment of taxes on the ownership of motor vehicles (IPVA), the result of auto sales growth (Salvador, 2014). Between 2003 and 2012 there was an increase of 98% in the production of motor vehicles, placing Brazil as the fourth largest car manufacturer and the holder of the seventh largest automobile fleet, according to the National Association of Vehicle Manufacturers (Anfavea).⁶ It is worth noting that IPVA is not levied on vehicles such as jets, helicopters, yachts and motorboats, because as the successor of the former single road tax, jurisprudence established that its incidence is limited to ground vehicles.

Despite being a country with a strong presence of large estates, Brazil charges a paltry tax on rural properties. Data from the Federal Revenue (2015) shows that the rural property tax collects 0.01% of GDP. The Constitution establishes progressivity in the collection of the tax on urban land ownership, a municipal responsibility, but there have been established neutral rates for it (Silveira et al, 2008). Moreover, until today there has been no regulation on the tax on large fortunes, under federal jurisdiction, which was established in the 1988 Constitution.

In 2000, IOF raised the equivalent of 0.29% of GDP, representing a percentage increase of approximately 267% from 2000 to 2011 (Salvador, 2014) and reaching R\$ 29.4 billion in 2014 (IRS, 2015).

IOF was created in the tax reform of 1966, carried out by the military dictatorship, designed as an auxiliary instrument of the monetary and exchange rate policies to facilitate the achievement of the macroeconomic objectives set by the federal government. Financing public policies is not its primary function, since it is a regulatory

Studies from IPEA confirm that the poorest Brazilian families use 32% of the available income to the payment of taxes. The burden of taxes falls to 21% of the income of the richest families.

tax. But *IOF* functions have been gradually expanded. Today, the tax focuses on various transactions and services offered by the banking system – most notably, operations with securities and exchange; insurance and credit; derivatives; and gold.

IOF has also been fulfilling a tax collection function, helping to partially restore the resources lost with the end of *CPMF*. In

theory, this tax is passed on to the price of final goods and services, with regressive features. However, *IOF* can become a tax on the taxing of financial transactions if it acquires progressive features, exempting popular loans and widening the tax base to achieve a set of speculative financial products.

A particular aspect of taxation on income in Brazil is that not all taxable income of individuals necessarily incites the progressive scale of this tax and subject to the annual income tax declaration. The taxation of wages follows the four rates determined by law, but the income from land ranges from 0.03% to 20%, depending on the degree of use of land and the total area of the property. Income from financial investments has rates ranging between 0.01% and 22.5% depending on the term and type of investment, which favours rentiers. This situation shows that in the 21st century, the income derived from work is taxed more heavily.

This is because the current legislation does not subject the revenues from capital and other income of the economy to the progressive scale of income tax, which are taxed at lower rates the tax on labour income. By allowing the exclusive incidence of certain income at source, the tax legislation establishes discrimination at the source of income of taxpayers, who are taxed only proportionally, avoiding progressiveness. This is a contrast with what is established in the Constitution, which does not permit discrimination among professional occu-

pations or function performed by the taxpayers – regardless of the legal designation of their incomes, titles or rights. (National Sindifisco, 2010).

This inequality has created a bizarre situation in the country, where a relatively small number of taxpayers present high taxable income. Analysis by Gobetti and Orair (2015), based on the publication of the Federal Revenue called “Large numbers of IRPF”,⁷ compares different incomes that are distributed in the society and shows how inequality leads to staggering numbers of tax injustice. In 2013, 71,440 declarants were at the top of the income pyramid in the country, with income equal to or greater than 160 times the minimum wage, which amounted to R\$ 108,480.00 per month. These declarants accounted for 0.3% of all persons who provided information to the tax authorities, or approximately 0.05% of the economically active population (Gobetti and Orair, 2015). In 2013, these people had a “net patrimony of R\$ 1.2 trillion (23% of total) and a total income of R\$ 298 billion (14% of total), from which R\$ 196 billion in tax-free and R\$ 64.5 billion in income taxed exclusively at source “(Gobetti; Orair, 2015, p. 15). Only about 1/3 of these individuals pay some income tax and 2/3 are exempt. The average rate paid is equivalent to 2.6% of total income. This is a direct result of the income tax exemption on profits and dividends: from 71,440 of these declarants, 51,419 received dividends and profit shares that are exempt from income tax (Gobetti and Orair, 2015).

A study from the Institute of Applied Economic Research (IPEA, 2011) confirms the high regressivity of the Brazilian tax system: 10% of the poorest families in Brazil use 32% of the available income to the payment of taxes, while the burden of taxes falls on 21 % of the income of the richest 10%. The IPEA study is based on the Household Budget Survey (POF) 2008–2009 of IBGE and provides consistent results for the impact of indirect taxes in the highest tenths of income. In the case of indirect taxes, the assessment is based on available income, direct taxes already discounted.

Thus, it is not surprising that the BBC Brazil (03/14/2014) has reported that “rich people are less taxed in Brazil than in most of the G20.”⁸ The text of the journalist Mariana Schreiber points out that the Brazilian elite often complains about taxes, but their complaint is unfounded in an international comparison, for it is the poorest sustain the Brazilian State. The article published by the BBC Brazil was made from the survey by PricewaterhouseCoopers (PWC) held in nineteen countries of the G20 (group that includes the nineteen largest economies of the world plus the European Union) and concluded that Brazilians pay less income tax than citizens from G20 countries.

This tax system burdens the low-income population, which supports a high indirect taxation. In addition, direct taxes have low progressiveness and focus heavily on the income of workers.

Final considerations⁹

The debate on tax reform in Brazil cannot ignore the prevalent social injustice. Amendments must point to a more progressive and fairer tax structure. As a result, high-income households would then have to bear the greatest tax burden, allowing in practice, a redistribution of income in the country and the exemption of taxation on consumption and production itself.

It is necessary to revoke some changes made in the infra-constitutional legislation after 1995, which buried tax equality in Brazil by favouring income from capital gains to the detriment of income from labour. Ending interest payments on the equity of firms; reducing the income tax and social contribution on net income; and ending the tax exemption on profit shares and dividends and their remittance to other countries, as well as the exemption for the financial investments of foreign investors in Brazil, are among such necessary changes.

The creation of the wealth tax, as prescribed in the Constitution, but unregulated until now, is an opportunity to bring justice to taxation by properly applying the constitutional principle of contributive capacity and burdening the assets of the richest in the country. Complementary to the wealth tax, progressivity should be introduced in the *causa mortis* and the tax on donation transfers, by adopting, in the case of the income tax, an exemption range and a progressive scale of contribution, according to the value of the donation or asset transfer. Another



way to progress on the fiscal justice of reducing social inequalities is to increase taxation on motor vehicles, which has low progressivity and does not affect the ownership of boats and private aircrafts. With regard to taxation on consumption, goods and products should be taxed selectively due to their essentiality, with higher levies on luxuries than less essential products.

It is also necessary to redirect taxation so that its priority focus is on patrimony and income of taxpayers. The pillar of the tax system should be the income tax, the most important direct tax, intended to ensure the individu-

al nature and applicability according to the economic capacity of the taxpayer. Through income tax it is possible to reverse the regressive nature of the Brazilian tax structure, since it is the most progressive tax.

The unequal taxation of income, which benefits the top of the social pyramid, could be solved if the income were taxed at the progressive scale of the income tax, with new rates and more contribution ranges. The result would be a reversal in the distribution of the tax burden, which would be focused on direct taxes, i.e. on income and assets, ensuring greater social justice. ■

Notes

1. To get the most recent period the initiative at the beginning of the Fernando Henrique Cardoso government's stands out, constitutional amendment proposal (PEC) 175, 1995. During the government of Luiz Inacio Lula da Silva the PEC 41/2003 and the PEC 233 / 2008 were sent.
2. According to an article published in the magazine Carta Capital (03/07/2014), the Brazilian surplus is one of the five largest in the world.
3. A detailing view of the tax exemption measures in the period from 2011 to 2014 can be seen in: SALVADOR, Evilasio. *Renúncias Tributárias: os Impactos no Financiamento das Políticas Sociais no Brasil*. Brasília: Inesc, 2015.
4. According to http://www.oecd-ilibrary.org/taxation/taxation-key-figures-from-oecd_20758510
5. Smith, Nogueira and Souza (2001) corroborate the adopted hypothesis of full translation, that is, transfer prices of goods and services of the tax burden of corporate responsibility. A study based on econometric models, following a proxy of this classification, can be seen in Fullerton and Metcalf (2002), available at <http://paper.nber.org/papers/w8829>
6. <http://www.anfavea.com.br>
7. Data available at <http://idg.receita.fazenda.gov.br/dados/receitadata/estudos-e-tributarios-e-aduaneiros/estudos-e-estatisticas/11-08-2014-grandes-numeros-dirpf/grandes-numeros-dirpf-cap>
8. Available at http://www.bbc.co.uk/portuguese/noticias/2014/03/140313_impostos_ricos_ms.shtml
9. A set of proposals for a fairer tax system can be seen in Salvador (2014).

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Capitalism and State in Brazil

The saga of public investment



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The Brazilian government accepted the orthodox diagnosis that public and private investments compete with each other, so it would be necessary to shrink the former to expand the latter. But our history shows that this idea is a mistake. There is an extremely positive interrelation between the public and private investments. Despite having smaller dimension in absolute terms, public investment has a leading role in driving the pace of economic growth.

Introduction: a “new macroeconomic matrix”

In mid-2011, early in the first administration of President Dilma Rousseff, the economic policy, which had been practiced till then within the canons of liberal orthodoxy, suffered a slight inflection.

A few months later, the Finance Minister himself called a spade a spade and admitted the adoption of “new macroeconomic matrix”.¹

Everything indicates that the motivation behind the change was a diagnosis of the macroeconomic evolution after the international financial crisis of 2008. The possibility that credit-leveraged consumption continued to function as a dynamic variable of growth was evidently exhausted. Naturally short of breath, this variable conflicted with the increase in the level of household debt, which had reached its limits.

At the same time, the evolution of the international crisis obfuscated the behaviour of the external demand. In particular, China was sending clear signals it would slow down its economy – or at least reduce the growth

rate of gross fixed capital formation (GFCF). It was evident that the commodity price boom, which had benefited Brazil until the bubble burst, was a thing of the past.

There was nothing else to do but try to recover the investment, so that it works as it is supposed to in capitalism, that is, as the dynamic variable par excellence. The data showed clearly a drop in the real growth rate of investment in recent years (Chart 1). In addition, the return on investment would boost increased productivity in the economy – another pressing need to ensure growth.

Therefore, the “new macroeconomic matrix” was born with the task of recovering the growth rate of gross fixed capital formation, at risk of compromising the future conditions of economic growth. If successful, the policy would lead to an increase in the investment share of GDP. Despite a slight recovery since 2003, this indicator remained well below the levels required for sustainable future growth that was capable of continuing the process of social inclusion in progress. It was also far from the levels it had historically reached in the country.



The accelerated reduction of interest rates was the main instrument of “new matrix”. It aimed a triple result: (a) to reduce currency appreciation to regain market

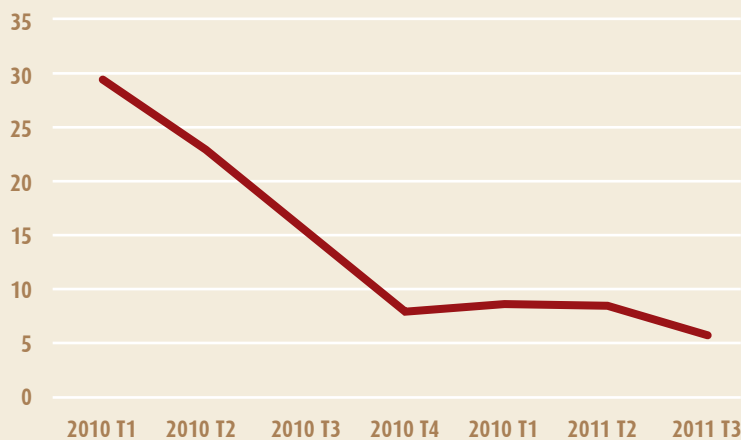
space (internally and abroad) for domestic production, increasing the marginal efficiency of capital and encouraging investment; (B) to raise the demand price of cap-

ital goods, inducing investment; (C) to reduce business costs, making room for investment.²

Confronting interest rates was surely the hallmark to inspire the “new matrix” and to begin discussions on whether such a policy was developmental or not.³ There was another ingredient added to the plan that intended to impose minimum controls on international capital flows⁴, preventing that, from the point of view of reducing exchange rates, the ebbs and flows of international capital would not destroy with one hand the effort the government made with the other to sharply reduce the basic interest rate and confront domestic rentist interests.

If it were restricted to this situation and if to these two measures were added the continuity and even the strengthening of public investment, which had been

CHART 1 | GFCF - Gross Fixed Capital Formation | 2010 - 2011
rate of real growth (%)



SOURCE: IPEADATA (IBGE, NATIONAL ACCOUNTS, BASIS 2010). INTERNAL ELABORATION.

growing monotonically since 2004 under the central government, the label “new matrix” or “new policy” would be better applied. But that's not what happened. On the contrary, in the sequence of what had been done immediately after the post-crisis (subsidies for home appliances and automotive sectors), it was decided to add to these measures an exoneration policy of the payroll, which started selective and later became general.

Maintaining the obligation to produce substantive primary surpluses, despite the slowing of economy, the only way to find fiscal space to accommodate the cost of exemptions was to reduce public investment (Chart 2). In other words, the government decided to use the reduced discretionary space in the management of the budget to encourage private investment (policy on the supply

side), instead of continuing to raise public investment (policy on the demand side).

The result was disastrous, as private investment did not meet expectations and did not react. The real growth rate of GFCF continued to decline in 2012, becoming negative. It had a slight recovery in 2013 and dropped heavily in 2014 to 2015 (Chart 3).

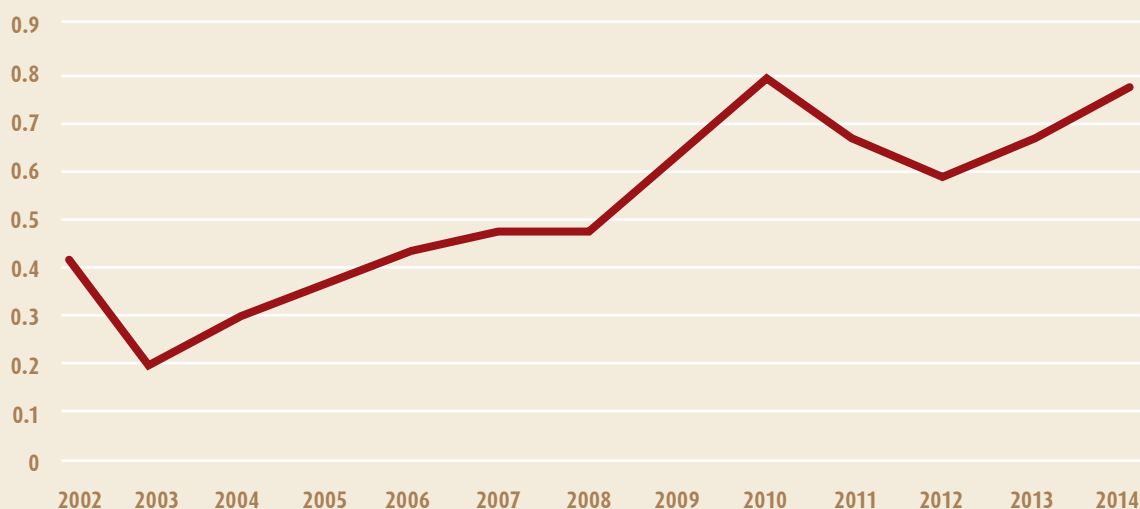
In consequence, there was a continued decline of the relationship GFCF/GDP (Chart 4)⁵, as witnessed in the worsening results for the GDP (Chart 5).

It is not our point to discuss in detail the reasons for private investment apathy and/or which one was the key to this result. But it would not be far off the mark to say that, on one hand, it was a combination of the continued poor expectations about income and future consumption, thereby de-

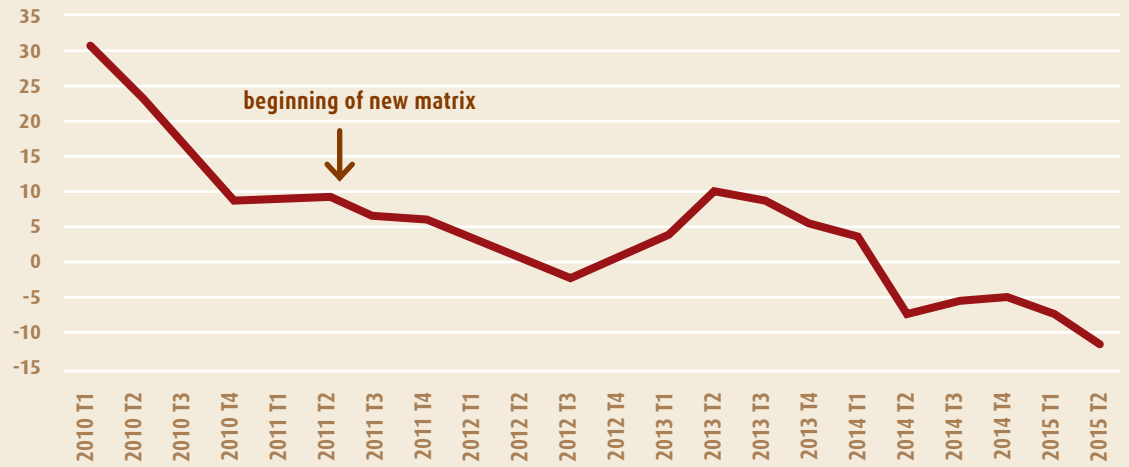
pressing the marginal efficiency of capital; and on the other, the political unwillingness to invest and strengthen a government increasingly seen as interventionist.⁶ In an uncertain economic environment of political discomfort, the additional R\$ 80 billion (in 2014 prices) approximately spent by the federal government in subsidies and payroll exemptions between 2012 and 2014⁷ increased profit margins, but did not turn into expanded capacity and increased productivity.

Regardless of the intent of those who made the decision, the government's choice followed the orthodox diagnosis that there is a competitive relationship between the public and private investment (phenomenon known in economic literature as crowding out), so that the latter would only take place more firmly with the first

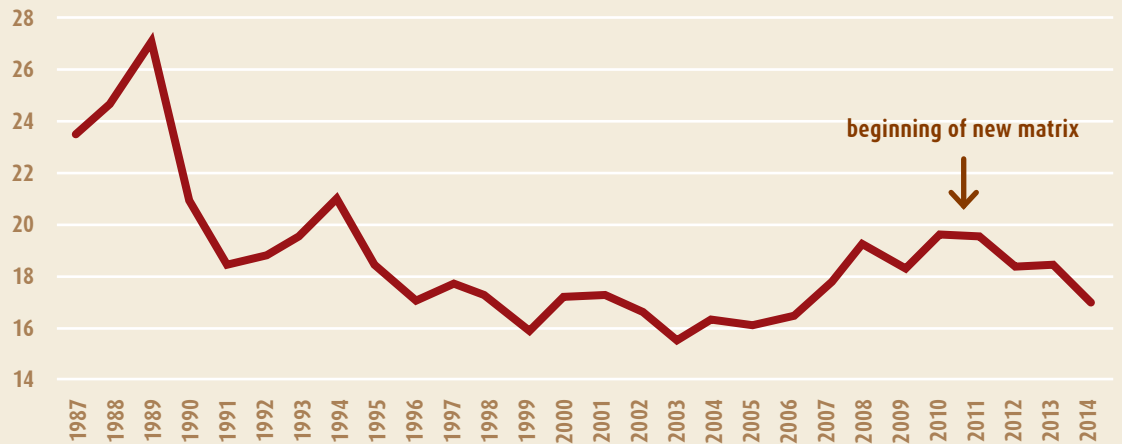
CHART 2 | GFCF of Federal Government (% of GDP)



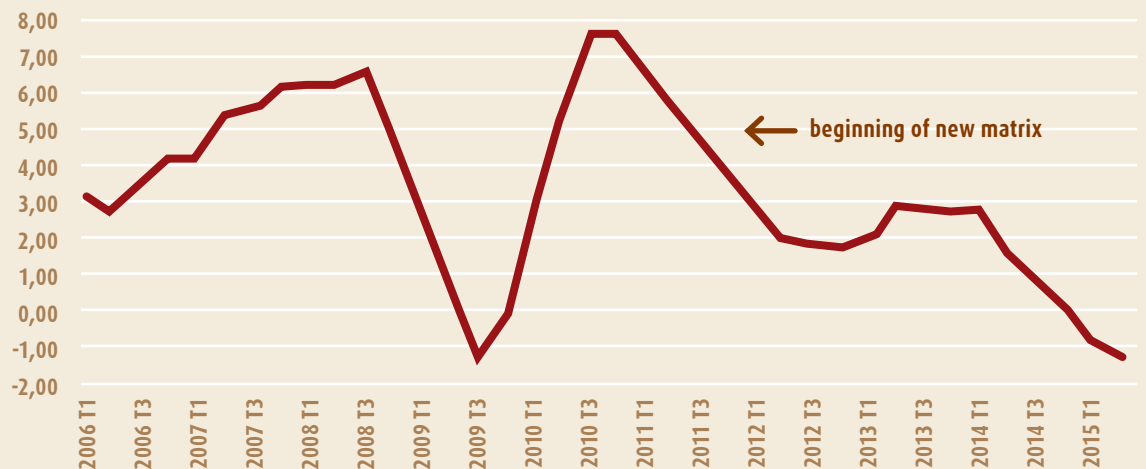
SOURCE OF THE PRIMARY DATA: AFONSO E FAJARDO (2015). INTERNAL ELABORATION.

CHART 3 | GFCF rate of real growth

Primary source of data:
Ipeadata (IBGE,
Contas Nacionais, base 2010).

CHART 4 | Rate of Investment GFCF/GDP

Source of the primary data:
Ipeadata (IBGE - National
accounts). Internal elaboration.

CHART 5 | Accumulated Quarterly GDP rate

Source of the primary data:
Ipeadata (IBGE - National accounts
- basis 2010). Internal elaboration.

shrinkage. Although isolated, this episode proves that the theory is wrong: in the period we are analysing, the Brazilian economy had a lack of both of sectors (considered the three-year period from 2012 to 2014, investment by the private sector recorded negative real growth of 1.3%).

However, Brazil's history shows much more dramatic evidence of this mistake. Unlike the orthodox thesis, it reveals an extremely positive inter-relationship between public and private investment and, despite being smaller in absolute terms, a leading role of the former in driving the pace of economic growth. Let's go back, then.

First act: the state productive sector as a *prima donna*

Between 1930 and 1980, the Brazilian economy was the fastest growing in the world. It reached an average rate of real GDP growth of 6.5% per year, reaching 8.8%, a truly Chinese standard, in the 1970s. This period also witnessed the almost systematic increase in the investment rate (GFCF / GDP), which went from an average of 11% in the five years from 1940 to 1944 to an average of 23% in the five years from 1975 to 1979, decreasing from there. Behind that, for different reasons and with dif-

ferent models, there was an insistent willingness of the Brazilian State to increase the speed of the locomotive of the public investment and drag private investment. Structurally, this was, after all, the backbone of the so-called national developmentalism, which declines in the 1980s of the crisis and then in the predominance of liberal ideas and programs from the 1990s.

In the thirty years from 1947 to 1977, public investment consistently grew at a faster rate than that of private investment, reversing the trend⁸. The period of higher GDP growth - the decade 1970-79 - was also the one that registered the largest public



The high interest rates, the spending on subsidies and the tax exemptions disrupted the public accounts and led President Dilma to use the orthodox formula, which worsened the problems.

investment rate (GFCF public sector / GDP), with an average of 8.6% and reaching a record of 11.7% in 1976 (for comparison, today this rate goes around 4%, including the investment of state). Evaluating the series for five-year periods, the one period with the highest average rate (9.4%) is not by chance 1975-1979, precisely the one which concentrated heavy state investments in infrastructure, capital goods and basic inputs which constituted the Second National Development Plan (II PND).

Throughout this period, but mostly from the beginning of the 1950s, with the establishment and consolidation of the powerful Brazilian state companies, it became evident the synergy between public and private investments in Brazil. As noted Beluzzo, "the state productive sector - in a peripheral country with

late industrialization - functioned as a provider of positive externalities for the private sector. The public-private synergy occurred on three fronts: 1) public investment (especially in the areas of energy and transport) ran in front of the current demand; 2) Government companies offered generalized inputs (goods and services) in appropriate conditions and prices; and 3) [government companies] turned into - still incipient - technological innovation centres" (2015, p.19-20).

From the early 1960s, when they were around 0.5% of GDP, the investments of the state productive sector only grew, becoming the star of GFCF and public investments and reaching the 7.0% of GDP at the end of the decade of 1970. The brutal increase in US interest rates in 1979 and the second oil shock in the same year changed this scenario expressively, starting a period of crisis and destabilization.

In the case of the Brazilian state companies, the foreign exchange constraint which marked the country involved them directly in the so called external debt crisis, as it took from them the ability to pay in hard currency the foreign loans they had been induced to take (in an attempt to face the constraint of the country's balance of payments resulting from the first oil shock). Later, in the 1990s, the privatization programs, inspired by the Washington Consensus, reduced the size of the state productive sector and therefore its ability to induce private investment. Let's look at it more closely.

Second act: a star fades away

The currency crisis that dominated the Brazilian economy in the early 1980s imposed a forced adjustment of its growth rate to the new conditions of the international capital market. Without the option of increasing its net external liability, an option that had been so handy in the previous decade, the only solution was to reduce the size of the economy and the amount of the current expenses in currency. In the period 1981-1983, Brazil's economy shrank 6.3%. However, the impact of this reduction in GFCF took longer to be felt. In the years immediately after the crisis, between 1979 and 1982, the GFCF / GDP ratio remained at around 22%, only reduced to about 18% from 1983. In parallel, the GFCF ratio of public sector/GDP in the same period remained on the landing, still high, from 6.5% to 7% in the period from 1979 to 1982, only falling to 5.3% in 1983.⁹ Despite the external constraint and the increasingly complicated situation of the public accounts, the public sector (including state companies) carried the weight of the completion of several of IIPND investments, which were delayed.

Moving against orthodoxy and its theory of sunk costs, according to which past costs are irreparable and cannot determine our present decisions, delayed investments of the II PND were completed, despite all that. This helped to increase the investment rate of the economy, despite the crisis already installed. In the classical interpre-

The strategy to increase consumption through credit expansion is usually short of breath, and not able to produce the sustained growth of aggregate demand, and therefore of product and income. The autonomous and dynamic variable, by definition, is investment.

tation of Barros de Castro, “the Brazilian economy was pregnant of investments” and there was no other rational way out but to keep the march toward the maturing of the strategic package of II PND¹⁰, which, as we know, was the responsible for the completion of our inter-industrial matrix. Throughout the period 1979-1982, the state productive sector continued to be the star of public investment. The effort of investment by Brazilian state companies with a view to completion of the II PND investments made their participation in total public investment reached always around 2/3, which meant about 4% of GDP.

However, after that, despite the relative recovery of economic growth in three years (the average rate of real GDP growth stood at around 6.8% between 1984 and 1986), occasioned mainly by the good results of current transactions (as effect of the very conclusion of the II PND) and post-Cruzado Plan euphoria, the GFCF ratio of public sector / GDP never returned to previous levels. The growth rate of this segment of GFCF was never again put ahead of the growth rate of GFCF in the private sector, as occurred until the end of the 1970s. Initially caused by the difficulties of Brazilian public accounts in the 1980s, this continued loss of importance of public investment was consolidated with the privatization process of the 1990s, which eventually reduced substantially the Brazilian state productive sector.¹¹

As shown in Figure 4, presented in the first section of this article,

from the end of the 1980s the Brazilian economy investment rate undergoes a process of decline that was at rock bottom in 2003, when barely reaches 15%. Throughout this period, public investment systematically loses importance and does not return to 5% of GDP: in the first half of the 1990s it is around 4%, drops to 3% in the second half and closes the millennium around 2.0%. The participation of state-owned enterprises, which had reached 7% in mid-1970, ends the 1990s with meagre 0.5% (the same figure of the early 1960s).

The investment only shows signs of recovery in the second mandate of President Lula. In late 2006, the Growth Acceleration Program (PAC) was initiated. A substantive package of investments (about 13% of GDP) expected for four years in infrastructure (transport, energy, water and sanitation) and housing is associated with this movement, not only for the higher volume of spending in the form of fixed capital promised by the state, but also for the signal it would make to the private sector. This is when the international financial crisis hits the Brazilian economy.

Epilogue: the hope of redemption and sunset

From the second half of 2004 the Brazilian economy gave signs of a steadier growth, with the accumulated rate in twelve months below 4% for several consecutive quarters. The country put itself in line with what was happening in the world: an apparently sustained

movement for growth – after a decade marked by financial crises – mainly driven by the recovery of the US economy after the 2000–2001 crisis, sparked by the burst of the bubble of the stock market (crisis of .com companies), and the rapid growth of the giant China. For Brazil, it meant the beginning of a favourable period: which allowed an unprecedented accumulation of reserves (with the consequent movement of the exchange rate appreciation, which later would charge the check).

Thus, the second mandate of President Lula began promisingly, under the auspices of the positive phase of the *commodities* cycle and optimistic expectations generated by the launch of the PAC. The constant improvement of expectations, along with the persistence of an auspicious international scenario produced, for the first time in decades, a robust and apparently steady growth. Over ten consecutive quarters (the third one in 2006 to the last in 2008), the Brazilian economy grew 5.2% (the cumulative average rate in twelve months).

Public finances also reflected the good moment, as the revenue grew ahead of the product and allowed to accommodate the expenses arising from the social policies of high impact that marked Lula's government since the beginning (including the real increase in the minimum wage), the natural growth of other current expenses and the increase in expenditure on investment. It was noted a sub-

stantial increase in the spending by the federal government in GFCF from the launch after the launch of PAC. At prices of 2014, this investment leaves the level of annual R\$ 16 billion in 2006 to R\$ 38 billion in 2010.

Despite the international crisis eruption in the last quarter of 2008, the federal government maintained spending on the planned investments: the real rate of growth of these expenditures was 34% in 2009 and 38% in 2010. Therefore, the Brazilian government took countercyclical measures. Despite the small volume of expenses if compared to previous spending¹², it gave a positive signal to the private sector. After the immediate stagnation as a result of the crisis in 2009, the measures reaped a real growth of economy of 7.5% in 2010. At the time, there were those that said the crisis had been completely overestimated, which showed a misunderstanding of what was actually happening in the world scenario.

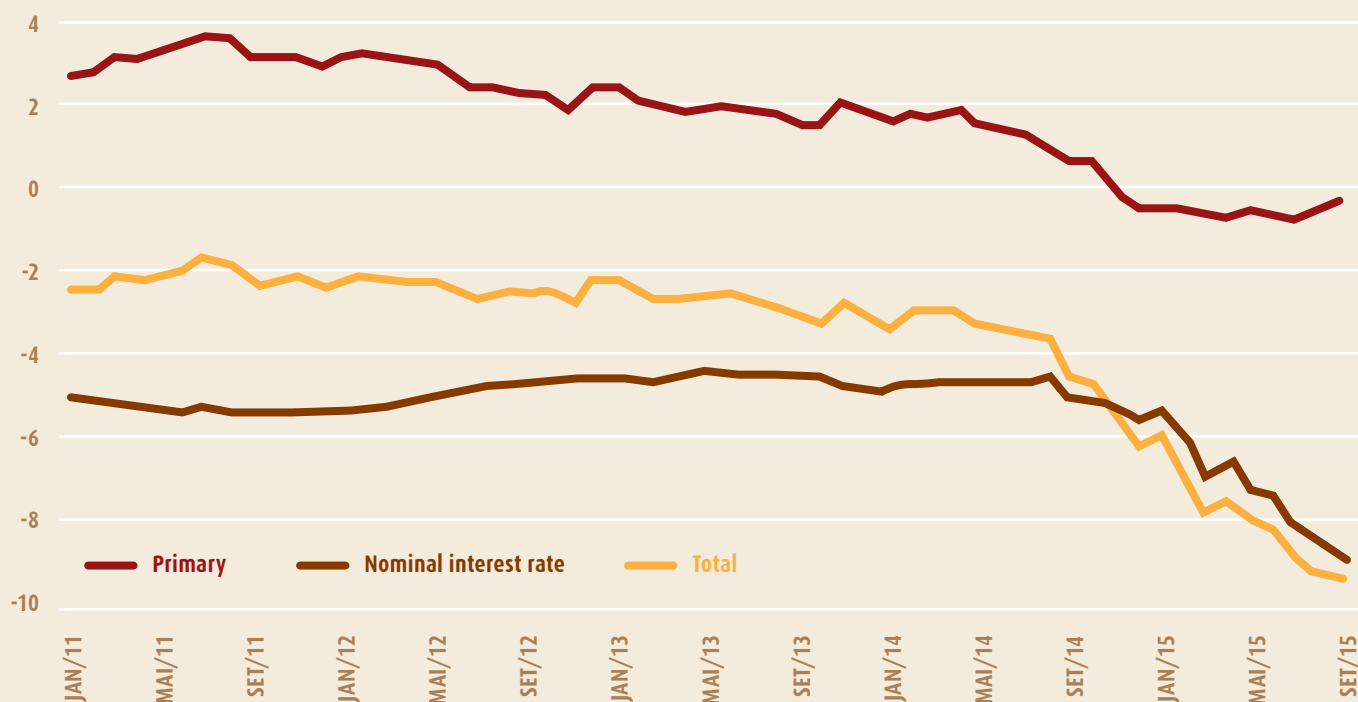
Together with this policy that was clearly inducing demand-side growth, the concession of tax subsidies was added – a supply-side policy that aims to induce growth through microeconomic measures to improve the business environment and reduce taxes. Without a clearly defined industrial policy and in the midst of a movement of continuous appreciation of the domestic currency, the tax on industrialized products (IPI) was reduced (temporarily) for vehicles, household white goods, construction materials and capital assets. At the

same time, the rate of the financial operations tax (IOF) for loans to individuals was decreased to encourage the expansion of personal credit. The reduction of indirect taxes affected prices, a situation that, coupled with an unprecedented expansion of credit, supported the aggregate demand by increasing of final consumption of households that helped to produce the amazing GDP growth achieved in 2010.

But the crisis was not overcome, neither domestically or abroad. In Brazil, despite the exuberant result of 2010, the growth rate was 3.5% on average over the 2009–2010 period, well below the average of 5.2% in the previous ten quarters. In addition, the strategy to increase consumption through credit expansion is usually short of breath, and not able to produce the sustained growth of aggregate demand, nor of product and income. It is well known that the autonomous and dynamic variable, by definition, is investment, which, as we saw in Figure 3, started falling in the first quarter of 2010, resulting in the negative growth in the second quarter of 2012.

Abroad, the recurrent aid packages provided by governments of the central countries were not enough to erase the marks of the greatest crisis of capitalism since the 1930s and to restore confidence. Amid an increasingly financialized economy where financial wealth has grown for at least 35 years at a rate almost four times higher than global GDP¹³, the formation of asset bubbles and the

CHART 6 | Consolidated NFPS (% of GDP)



SOURCE OF THE PRIMARY DATA: IPEADATA. INTERNAL ELABORATION.

consequent financial crises was a recurring situation along with the low growth. The seven year period between 2002 and 2008 constituted a real bracket of higher growth and relative stability until the crisis erupted with its infamous force in late 2008.

Calling for to its, shall we say, “normal stretcher”, but at an even lower level, the world economy triggered a significant change in the economic policy of China, which chose to slow down its growth, particularly by reducing the growth rate of gross fixed capital formation, and focusing on consumption.

Working together, these movements had disastrous consequences for the Brazilian economy, among which the substantial reduction in the commodity prices provoked by the Chinese decision is highlighted. Unable to expect anything positive from the external demand, with consumption reaching its limits and the government spending pressed by the permanent need to produce primary surpluses, the first Dilma government started by trying to recover the level of investments in the economy to keep its growth trajectory. For this purpose, the “new macroeconomic matrix” was used, the most im-

portant elements of which were the reduction in interest rates and exemption of labour taxes.¹⁴

The failure of the policy, given the inertia of private investment and the weakening of public investment, combined with the rise in the IPCA, which threatened to bring inflation from the centre of the target of its roof, made the Dilma government review one of the pillars of the “new matrix”: the basic interest rate (Selic) rose again from July 2013, and since then has grown steadily to reach the stratospheric rate of 14.25% per annum in July 2015, nearly doubling in two years.

High interest rates, maintaining expenditures on subsidies and exemptions, together with unimpressive GDP that weakened tax revenue, destabilised public accounts. The year 2014 closed with a negative primary balance for the first time since 2002 (very small, even by international standards, only 0.6% of GDP, but still negative, as shown in Chart 6).¹⁵

The media terror generated by this result, combined with a positive but very weak election result and worsening corruption allegations in a string of Federal Police sting operations, led President Dilma to start her second mandate with a completely orthodox austerity policy, seeking to balance public accounts by merely cutting spending. The situation has worsened as a result, since revenues have fallen at a faster rate than any effort to reduce the current costs.

The purpose of this article is not to discuss the adjustment policy of the second mandate of President Dilma, but reflect on the role of public investment in the Brazilian economy, looking at its history. Therefore, let us present our comments on the role of such investments in this final stage, which resulted in the complete abandonment of the “new matrix”.

The first observation to make is that if the federal government, had kept the average rate of growth that these expenses had over the period 2003–2010 instead of compressing its investments, its additional spending would not be very different from

the one that supported the payroll tax relief (at 2014 prices, something around R\$ 70 billion in 2011–2014)¹⁶. The result of this expense would be much more effective in stimulating the economy, since it would be a direct increase of the aggregated demand and not a set of assumptions about what might lead entrepreneurs to invest.

In addition, even unimpressive public investments act as markers for the rest of the economy and for investment decisions. Allowing for private investment without giving positive signals of future expectations only raises the income of entrepreneurs who profit but do not invest, thereby inhibiting economic growth, job and income generation, as well as productivity and future productive capacity. This is even truer in a peripheral country like Brazil, whose history of development, as we have seen here briefly, is linked to the State performance. This allows us to make one last comment on the developmental nature – or not – of the economic policy of the first mandate of President Dilma Rousseff.

In my view, Fonseca (2014) offers the best definition we have on the term developmentalism. It resulted from a historiographic research on the emergence of the concept in Latin America, halfway through the last century, as well as a historical research on over a dozen concrete experiences with such a policy on the continent. According to this definition, a particular policy, in

order to be called developmental, needs to contemplate a strong process of state intervention aimed at strengthening the industry and anchored in a national project.

It is not difficult to see that the set of measures of the “new matrix” is far from a developmental policy.¹⁷ It is true there was a concern for the industry, but it was derived out of the concern about slowing growth, rather than strengthening industry for its ability to increase the productivity of the economy and put the country in a more advantageous position in the international division of labour. Although the “new matrix” has included, for example, measures to protect the domestic production, such policy was not established in a real national project, which, moreover, had not existed before and did not exist in the Lula governments.

Moreover, in times of a lesser role of state companies and stronger participation of private capital, the increased government intervention of the “new matrix” was implemented via reform of the power industry, which was quite meddlesome and eventually reinforced the image of an interventionist government, which certainly contributed to the private sector’s unwillingness to invest during the first mandate of Dilma.

In the absence of these components (national project and clearly defined industrial policy), all benefits provided to businesses in order to make the economy grow and rate of investment

in hopes of increasing the rate of investment across the economy can be dashed. Behind the difficulty of building a more effective policy to guarantee the country's economic growth and its technological evolution, there is an institutionalised preference for financial wealth, which considers real production just an optional by-product of an economic policy that is primarily intended to benefit rentism and financial accumulation. This institutionalisation began in Brazil in the 1990s and none of the three governments of the Labour Party (PT) at the federal level was able to defy it. Dilma's attempt to reduce interest rates, strengthen public banks and use institutions to reduce the absurd bank spreads was short-lived, as has been seen.

Thus, the saga of public investment in Brazil has been melancholic. The investments of the second edition of the Growth Acceleration Program (PAC2), launched by Lula, were the weakest victims of the austerity policy adopted in early 2015. In May, Joaquim Levy, then Minister of Finance, announced a cut of about 40% in the budget for the program for the year (something around R\$ 26 billion). The difference with the "forced march" of the II PND investments in the midst of a double crisis (the second oil shock and the interest rate hike) in the early 1980s, is striking enough to indicate the decline of public investment in Brazil and the frustration in the attempt of saving them. ■

Notes

1. On 4 July 2012 the Minister Guido Mantega admitted for the first time the government practiced a "new macroeconomic matrix", in order to reduce interests and practice a "more active exchange rate policy," which would prevent the continued appreciation the national currency. <http://economia.estadao.com.br/noticias/geral,mantega-indica-novo-modelo-economico-imp-,896017>, accessed November 12, 2015.
2. Regardless of working with equity or loans, businesses consider interest on capital as cost: if a loan, because it is in fact cost; if it is equity, because it is the opportunity cost of the capital investment.
3. We will return to the subject at the end of the article.
4. This policy involves raising the IOF tax on foreign portfolio investments and foreign funding resources, including the intercompany loans. Furthermore, it imposed a reserve requirement on short positions of banks in the spot foreign exchange market as well as IOF of 1% in net short positions in currency derivatives over \$ 10 million.
5. In this variable, as we need a longer series, we chose to use the series of national accounts with the old methodology, which is based on the year 2000. The differences in the rate of investment between the two series (base 2000 and base 2010) are not significant.
6. According to some interpretations, this last factor would have been decisive for the bad result of the policy. Using a Kaleckian argument, the clearest in this regard is Rugitis-ki (2015), who speaks of an "investment strike". Singer (2015) puts the business community's unwillingness to the government of Dilma as a possibility. Boito (2013) starts from the analysis that advocates the formation of a neo-developmental front over the Lula government, which should have been continued by the first government of Dilma. In an oral presentation (in 2015) he stated that this front was broken around the end of the first half of the first mandate of the President.
7. To estimate, we consider the tax benefits (Income Tax and Cofins) and social security waivers (exemption of payroll) from data at 2013 constant prices presented by Diniz and Afonso (2014) for 2008–2014. We assumed that in the absence of "new matrix", these costs would continue to grow at the average rate presented in the period 2008–2011. Then we calculated the difference of that value in relation to expenses in the period 2012–2014 and updated the results for 2014 prices using the IPCA. More than half of the difference is explained by the exemption of payroll.
8. Long series published by IPEA, coordinated by Campos, Amorim and Garcia.
9. This relationship increases one last time at the end of the 1980s. After this period, it again decreases.

10. The famous book by Antonio Barros de Castro and Francisco Eduardo Pires de Souza (1985) on the subject has exactly the title “A economia brasileira em marcha forçada”.
11. Between 1991 and 2000, the federal government got about \$ 100 billion with the privatisation of companies in the state productive sector. The sectors where they were concentrated were, in order: telecommunications, electricity, oil and gas, mining and steel. Just to have an idea of the amount of public investment lost through privatization, for just the Companhia Vale do Rio Doce and the companies of the Telebras system, the average annual investment over the 1981-1992 period was about 0.9% GDP (Reis estimates, 2007).
12. The focus is the discussions involving the federal government expenditure, whereas before total public investment was referred to: federal, state municipal and state companies. At any rate, from 1950 to 1980, just considering the central government, the amount of investments as a percentage of GDP was three to four times higher. Furthermore, regarding state companies, the accounts cannot be calculated the same way, since even the ones that have not been completely privatised have a large amount of private resources. It is important to point out that even state companies had a significant increase in investments immediately after the crisis (especially the oil and gas industry), a trend that reverted in 2014.
13. Data on global financial wealth is produced unsystematically by McKinsey international consultants. The data on world GDP are available on the websites of multilateral agencies, in particular the IMF. To this regard see: Paulani 2010.
14. Other measures that made up the benefits package to the private sector were: intensive use of BNDES to offer subsidized credit for investment; measures to establish some control over international capital flows (see note 4); and some measure to protect domestic production, focusing on the automotive, shipbuilding, and machinery and equipment industries.
15. This series of information started in 2001, as it is now calculated. The year 2002 is the first for which there is full information (including all year).
16. Estimates on data from Afonso and Fajardo (2015).
17. It is not our intention to discuss the neo-developmentism at hand. Interested readers can consult Bastos (2012).


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On education and a national project



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A large, close-up, sepia-toned photograph of a hand holding a pencil. The hand is positioned diagonally across the frame, with the thumb and index finger gripping the pencil. The pencil is held horizontally, pointing towards the top right. The background is a solid, dark brown color.

I Economists have taken a **centric and abusive role in the contemporary debate**, just as their vision has become narrower. If the territory of Brazil were another, nothing would change in the models they use, because they ignore the space. The long-term – the real temporal scale in which nations are built – has been replaced by the short-termism of financial transactions. And people, if considered at all, have become mere adjuncts, rendered to be labour force or consumers. This kind of thinking is poor and forgets that the multiple dimensions of society, only highlighting what affects business.

This context also contaminates the debate on education. We talk a lot about the role of education in the economic growth when we should be taking the opposite approach. Economy is a means; education is the end. The increase in productive capacity only makes sense if creating material condi-

tions for people to free themselves from a narrow, repetitive and tiring existence, in order to be increasingly devoted to gaining knowledge, aesthetic pleasure and transcendence, human activities par excellence, which largely depend upon learning.

People who reach a high educational and cultural standard are also more able to build a modern and productive economy, obviously for the simple fact that this type of economy is one of the expressions of a certain degree of civilization. However, this is not the most important point. When the demand for education gained strength in the modern world, this correlation had not yet even been considered.

2

The proposal of giving formal education to the entire population is an extravagance of contemporary society, when compared to that of pre-modernity. No previous society had spread this practice, not even in classical Greece, a cultural heritage that has marked us so deeply. Formal education has always been restricted to small elites or closed groups, especially religious ones.

In Europe, the centre of the modern world-system, this change involved various events and processes. It had already emerged in the Protestant Reformation, when it was the idea that every Christian should be literate to be able to read

the Bible. It matures intellectually in the eighteenth century, during the Enlightenment, when it is strengthened the idea of re-founding the society under the dominance of reason, instead of tradition. Criticizing Hobbes, Rousseau highlights the fundamental role of education.

Hobbes had proposed a stylized historical model to explain how and why humanity had left behind the state of nature – with its struggle of everybody against everyone in pursuit of the pleasure itself – to enter the civil state, where social life is regulated by state institutions. According to Hobbes, the dynam-



ics of the state of nature itself leads to this leap, since such endless struggle is disadvantageous for all and peace is imposed as the main necessity; moreover, that is why individuals, moved from feelings of desire and fear, are led to renounce freedom and recognize a disciplinary power, the Leviathan, which is imposed by force, creating and maintaining the rule.

Rousseau criticized this formulation. For him, yield to force is an act of necessity and prudence, so that the Hobbes' "rule of the strongest" seems to him a meaningless expression: power creates real situations, but it does not establish rule. As the return to the state of nature is unthinkable, it is necessary to seek for another basis for life in society, in order to make it compatible with freedom. This is a difficult problem, perhaps insoluble, which remains current.

To solve it, Rousseau suggested that freedom is the spontaneous obedience to general laws that express the general will, "the reason in its practical dimension". Kant summed up this way when dealing with the categorical imperative: the condition for a free society is that men, acting freely, accept to limit their own freedom.

This required shaping man with much larger and more complex feelings than the primitive desire and fear of Hobbes. Hence the importance of education, considered since then as a condition to allow conviviality, which is at the same time regulated and free.

Conceived this way, the space of human freedom is not one in which everyone does what they want or what they can within in a

gangly competition with others. It is one in which the creative potential of the people is exercised in culturally defined ways that are socially legitimate and in which right and wrong, good and evil, are clearly defined. Naturally, this space is not rigid and unchangeable, but it must exist forever. The result is anomie, which sooner or later leads to the suppression of freedom, as Hobbes had described.

3 **Political conditions** to carry out the educational revolution in Europe happened slowly. They came, paradoxically, from a change in the way of making war. By the end of the eighteenth century, the European wars were fought by professional armies, formed by mercenaries in the service of emperors, princes, dukes and barons. Soon after the French Revolution, the European nobility launched its mercenary troops against the young Republic. They arrived victorious at the gates of Paris, making the revolutionaries call for a general conscription – the *levée en masse* – to form an army of citizens. Five hundred thousand French were listed. They were not professional soldiers, but reversed the course of the war.

Napoleon Bonaparte inherited this experience. He formed great armies from the masses and with them he altered the continental geopolitics profoundly. Once the Napoleonic wars ended, the European nations could not imagine the possibility of defending themselves and surviving if unable to count on extensive infantry. The

time of the mercenary war had come to an end. Now the challenge was to form much larger armies of citizens. However, it contained a premise: educating citizens.

In order to do so, nineteenth-century Europe consolidated two major processes. The first one was the abolition of the remaining feudal rights, which included land reforms in many regions. The second one was the creation of the mass education systems. The consolidation of modern nations presupposed the existence of large human contingents equipped with a new type of identity, of the national identity. In order to support it, the emerging states in progress created institutions dedicated to unifying languages, discovering and disseminating literature, developing and telling the story of a common past, spreading the idea of rights and duties, and so on.

Such an endeavour cannot be done without a debate. At the time, many people defended the idea that education for all was a mirage, an inconsequential dream, since formal education is a long, difficult and expensive process. It made no sense to imagine that everybody could fit within it. Once the new idea was firm, however, other voices were raised to defend the creation of differentiated systems, since most people were destined from an early age to manual labour in the mines, factories and agriculture. Only a small minority would participate in the world of administration, management and planning. The educational systems should incorporate this real inequality, offering to everyone a compact, fast, basic, elementary education, and

to some other people a complete education, oriented to a wider domain of the culture and techniques.

However, the boldest and more progressive idea prevailed: to provide education for all in planned state institutions to disseminate a common cultural basis, with a view to establish and consolidate “imagined communities” – the nations – much larger and more complex than the traditional communities.

In several cases, it was necessary to join many different populations in one. Mazzini noticed the problem. Soon after the unification of the Italian peninsula in 1870, he wrote: “We have made Italy. Now we must make Italians.”

It is in this context that public systems of mass education, institutions of the nation-state were born.

4

Brazil has not followed any of these processes, not even remotely. Our agenda of the nineteenth century was another: firstly, the young Brazilian State’s foremost concern was with preserving the territorial unity against the strong tendency to the country’s fragmentation; secondly, the country groped to make a “slow, gradual and safe” abolition of slavery, so as not to disrupt the primary-export economy based on large properties.

At the time, Europe universalized the public school, while Brazil was delayed in this field. Our tradition was not good: contrary to the colonies of the Spanish America, Portuguese America never had a university to form with its own staff. The universities of Mexico and Lima had been founded in the

sixteenth century, and the other capitals followed them. All viceroyalties of Spain had a government structure and a university, around which revolved a local elite.

The Brazilian elite was taken to study in Coimbra and remained for long time in the Metropole, where it was part of the apparatus of the Portuguese State, and then returning to Brazil in this condition, as shown in the trajectory of José Bonifácio. During the colonial era, the only group that had spread some formal education was the Jesuits, who were then expelled in 1750. Afterwards, the issue of education had virtually disappeared from the Brazilian horizon for a long time, even after independence. It made no sense to think of mass education in a society that was belatedly slaveholding.

There was hardly any progress during the long reign of Pedro II, despite his image of a good aristocrat, a lover of culture and arts. The emperor founded a school for the blind and other for deaf-mute people out of charity. Some schools were opened with personal donations. However, there was not a public education system as a State policy.

5

The Brazilian agenda of the nineteenth century clashed drastically with the agenda of the countries that had been at the centre of the world system or those – the United States and Japan – which managed to reach it. In such countries, the educational, agrarian and industrialization revolutions predominated in different ways, with

different rhythms. In Brazil of the same period, the country saw territorial unity and the problematic extension of slavery. There was no phase of mass education.

The situation did not change upon the proclamation of the Republic in 1889 and in the first decades of the twentieth century, nor was there any change in the structural conditions of the country. We remained primary exporters, and the conservative transition from slavery remained in brutal social segregation. We still did not have state policies for education, which was still considered a private affair or, at most, the concern of local authorities.

The news that emerged in the 1920s did not come from the state, but from society itself. Social, cultural, political and political-military movements placed on the national agenda two issues hitherto neglected: identity and development. The Brazilian people began to emerge as a producer of culture, and our “agricultural vocation” started to be challenged by the civil and military advocates of industry. Brazil was increasingly recognized as an undeveloped country, challenged to hasten the pace of its own history.

The 1930 Revolution was the heir of these movements and became the milestone of a re-foundation of the Brazilian state. The result, among other things, was the creation of the Ministry of Education and in the formulation of our first educational policies. Although very late, Brazil began to train teachers systematically and to implement a public education system that, with time, would be universalized. We dreamed of a unitary and inclusive education, following the best European traditions.

As could have been expected, the construction of such a system did not come without tensions. One of them was the opposition between the idea of a classical, humanist, generalist education, and a practical education, which was directly aimed at integrating people into the labour market. Although the classical concept prevailed, there was a strong and direct association between educational effort and economic development throughout its development, if only as a way of legitimizing the former. In the 1940s and 1950s, this coincided with the worldwide spread of the idea that the development processes depend on the so-called “human capital”. Technical schools were founded, the so-called “S System”, with Senacs and Senais was increased, following the idea that education should, first of all, form the manpower necessary for development, especially in industry.

All types of schools were multiplied. Behind them, and other young institutions, there was a nation-state under construction. It created and reproduced the general conditions in which the partial institutions of citizenship, development, welfare, control, surveillance and punishment were supported.

For its comprehensiveness, its capillarity and role, the network of public schools, here and in other countries, was the most important creation of the State. For the first time, millions of children and young people started to share, every day, the same mandatory state spaces. Educating them was, above all, forging in them a national consciousness and transmitting consolidated knowledge. The narrative of a common past,

which gave meaning to the present, and the domain of the language and writing were the initial steps of this formation process.

6

The developmental cycle, as we know, ended in the 1980s. Thanks to its impetus in the following decade, Brazil has managed to universalize, or almost universalize, the access to elementary schools. In addition, the secondary and collegiate levels were significantly expanded so that, at the turn of the century, entering school ceased to be the major barrier – which is an important victory

Even so, everyone recognizes that Brazilian education remains an unsolved problem. The evidence is multiplied in the shameful quality indicators. A test recently applied in a very significant sample – 338,000 students from second to fifth grade in 350 municipalities in 21 states – showed that 70% of children and young people from public schools remain illiterate, regardless of their grade of school. More than half of fifth graders were included in this classification. The international assessments that measure mathematical competence put us invariably near the bottom, next to much poorer countries. The teachers regret the amount of functional illiterates in the universities.

We have schools for all, or almost all, but we cannot disseminate education. In general, the debate about it is limited to calls for more resources and more “political will” to change this situation. It is a poor argument. The school crisis reflects much deeper issues.

The Greeks of the classical age recognized a truth that we should never forget: beings oriented to freedom are free to destroy themselves. The world space only becomes safe and habitable for these beings if they take shelter in the domain of ethos.

We have seen that the mass education gained force from the nineteenth century, when it was associated with the consolidation of nations, but Brazil did not live this experience. Then it became an essential part of the national development projects. We managed to hitch a ride with this concept, but it has since lapsed, and Brazil has become accustomed to living without a project for the last few decades.

As part of this abandonment, in practice we have left the dream of unified education, intended to form citizens. Instead, we recreated the (public) schools for the poor and the (private) schools for the rich, i.e., the compact education for the many and extensive for the few that Europe had rejected in the nine-

teenth century. The middle and upper classes have again considered education a private matter, the function of which is to ensure to their children the status and access to their differential. Good schools started to be seen as specialized companies, able to provide qualification for a labour market increasingly competitive and exclusionary. Today, they separate and discriminate, rather than promote gathering. It is a huge ideological mutation in the concept of education.

The public school became an orphan of the state that conceived and supported it materially and ideologically but no longer articulated social practices. In its place came the market with its competitive appeal, its volatility, and its speed. In this context, most young people are not led to develop citizenship; they do not recognize consolidated knowledge; they do not live with the expectation of a future under construction. The time is now. Instead of general laws, typical of citizenship, what prevail are the rules that the specific group establishes at every moment. If everything is changing, nothing is relevant. And in a society where everyone has (or may quickly have) any information on any issue, what matters is giving an opinion, not knowledge.

All this questions the school statute. Unable to fulfil the former functions of discipline and preparation for citizenship – and unable to join the unbridled market dynamics – the public school, without a clearly defined role, has entered a blind operating system, next to anomie. The traditional challenge of teachers was to figure out

how to go beyond a simple lesson, in order to overcome the established routine; today, most of the time, the challenge is to be able to even teach a class. There is a clash of subjectivities in schools, which remain insoluble. Teachers are also trained to serve the citizen-subjectivity, while students increasingly become bearers of a media, imagery, erratic subjectivity, which does not facilitate the productive permanence in a classroom. This is not a specific abnormality or individual unpreparedness of one or another student: we are talking about social conditions.

7

We need to rethink fundamentals.

What do we need public schools for? To educate people. But what does that mean?

Man does not only act, like the other animals, but interprets his action. All human actions are interpreted actions, and all of them result from some prior interpretation. Educating man is acting on the interpretation systems built by in the imagination, which brings us to the symbolic universe, constitutive of our existence, as much as our physical body.

Regarding man, to be and ought-to-be are indissoluble aspects. This is the ontological foundation of ethics. *Ethos* in Greek refers to where man resides. If the word has taken on a broader meaning, it is because the Greeks of the classical age recognized a truth that we should never forget: beings oriented to freedom are free to destroy themselves. The world space only becomes safe and habitable for these

beings if they take shelter in their homes, the domain of *ethos*.

Contrary to what common sense imagines, this is increasingly important. Thanks to the technical and instrumental rationality that economists love, external risks – the weather, predators and lack of food – almost no longer threaten us. But this rationality is not enough, and it can be counterproductive to facing our greatest current challenges. For today our existence is threatened only by ourselves, by our inability to build, in peace, a life in common.

A society that loses the ability to communicate dialogically – establishing shared values and purposes, differentiating between good and evil, establishing legitimate behaviours – ends up destroying itself. It loses the right to freedom, because it recreates the Hobbesian crowds, driven only by desire and fear, thereby calling the Leviathan.

The role of education and educators remain irreplaceable, since educational systems are among the last places that can still enforce communicative rationality, cultivating language on the reason and word, the human language *par excellence*. In these spaces, increasingly rare, the human interactions can exist without being dominated by one-pointedness and speed, typical of mass communication.

Forming citizens – not passive and frustrated consumers – remains the irreplaceable role of public education. But it cannot be reborn by itself, by its own efforts, no matter how much money is spent. The child of a national project, it depends on just such a project to regain its justification. The lack of project is more distressing than the lack of money. ■

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The João Mangabeira Foundation and the Brazilian Socialist Party, together with the Miguel Arraes Institute, present the 100-year anniversary of the life of Miguel Arraes, an icon of the struggle of democratic socialism in Brazil and around the world. The programme includes several activities and commemorations for the exchange of information and debate on the political legacy of comrade Arraes. Books, expositions, seminars and a special programme of PSB events will be released for 2016.

A native of the state of Ceará, Arraes made his political career in the state of Pernambuco, where he became an integral part of the Brazilian Left. He was a Federal and State Deputy, as well as governor of Pernambuco three times. Due to his political orientation and participation, he was deposed by the military regime in 1964, imprisoned and exiled to Algeria for 14 years. Once abroad, he actively participated in the independence movements of other Portuguese-speaking nations. Known as "Father Arraes", he enjoyed immense popularity, particularly in the countryside and in the urban periphery.

