BRAZIL

Public budget: financial expenditures devour rights

To pay off debt, the Government has cut funding for policies that ensure rights. In the last four years, debt interest and amortization payments have been double the total expenditures for social work, health, jobs, education and culture, citizen rights, housing, sanitation, environmental management, agricultural organization, sports and entertainment. Whether through direct levies or indirect taxes added to the price of goods, the beneficiaries of social expenditures are paying the cost themselves.

Social Watch Brazil[1]
Evilásio Salvador
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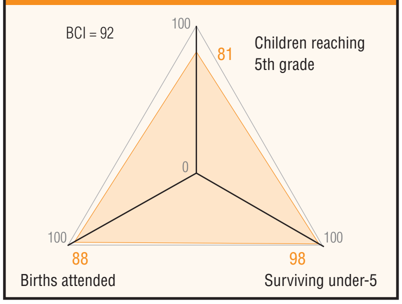
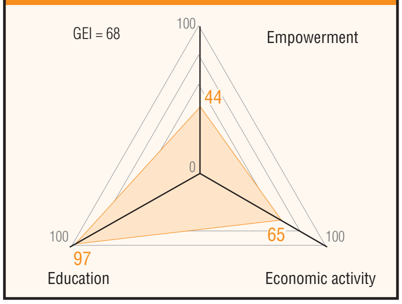
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The public budget: fulfilment of ESCE rights

In 1992 Brazil ratified the UN International Covenants on Civil and Political Rights (ICCPR) and on Economic, Social and Cultural Rights (ICESCR), and the OAS American Convention on Human Rights. It has also ratified various other international agreements on the subject. Article 2 of the ICESCR affirms that nation states should spend the highest possible amount of (human and financial) resources available to realize the rights stipulated in the covenant, in progressive stages and without regression. At the national level, the 1998 Federal Constitution includes a set of principles and rules that incorporate the rights enumerated in the international treaties ratified by Brazil.

Implementing the economic, social, cultural and environmental (ESCE) rights enumerated in the various documents requires resources, as well as legal frameworks, laws, functioning institutions and a judiciary. This means the public budget is a privileged instrument for ensuring these rights. Also, rights have a 'cost'. Making them a reality – respecting their essential characteristics of universality, indivisibility and interdependence – requires that the State make the right political and economic decisions regarding the production and distribution of goods and services.

Therefore, scrutiny of the public budget must go beyond looking at how equitably it distributes available resources to include assessing how effectively planning for resource accumulation and policy implementation promotes human rights. A wide range of services, such as security, health and social security, depend to a great extent on State policies. If tax revenue is insufficient it is likely that these essential services will not be adequate to meet needs, or that they will be financed through printing money or increasing the public debt.

From a political perspective, the budget and the public debt can be seen as a focal point of dispute or struggle (or cooperation) among different interests that gravitate around the political system.

We have studied the budget process for the period 2004-2007,[2] bearing in mind that the public budget should provide enough resources to promote progressive consolidation of rights. This will ensure that Brazil complies with the international treaties that it has signed and, most importantly, guarantees the rights codified in the Constitution and in legislation.

Ignored ESCE rights

For this study, budget functions[3] were selected from areas where expenses are directly related to implementing ESCE rights.[4] Total expenditures for these functions rose 17.26%, after inflation during the period examined. This was a smaller increase than the 25.26% recorded for the entire budget, which suggests that other expenses were given priority over the implementation of ESCE rights.

Total budgetary expenses related to ESCE rights made up 44.7% of the combined fiscal and social security budgets in 2004. By 2007 they were down to 41.9% of the total. Social security benefits for the private and public sectors accounted for 67% of budget expenditures related to ESCE rights. If this spending is subtracted, expenditures for rights totalled only 14.25% of the budget. As a proportion of GDP, ESCE rights expenditures were 12.52% in 2004 and 12.65% in 2007. Excluding social welfare, they represented only 4.31% of GDP in 2007. This indicates that ESCE rights have not been a high priority in the budget.

Social security challenges

Social security is by far the largest expense related to implementing ESCE rights. The General Social Security System pays out benefits to 21 million people for retirement, pensions and subsidies. However citizens can only obtain social security by contributing to the fund directly, which ties the system closely to the formal labour market. Primarily for this reason, in 2005 more than half (52.4%) of the economically active population made no contribution to social security. This poses huge challenges to the universalization of social security rights.[5] It is worth noting that 67% of social security funding in the 2007 budget came from direct contributions by employees, employers and state workers. Thus taxes (fiscal revenues) play a relatively small role in financing social security (Salvador, 2007).

Low health expenditures

Health expenditures are the second largest budget item related to ESCE rights. In spite of an increase of 12.9% in real terms,[6] funding dropped from 1.7%

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2 This period coincides with the latest Pluriannual Plan (PPA 2004-2007). The data was taken from Siga Brasil database, available at: <www.senado.gov.br>.

3 A function is the classification of budget expenses whose objective is to register their allocation. Function can be defined as the highest level of grouping of the diverse areas of action in the public sector. It is related with the institutional mission, mainly of the executing body, such as, culture, education, health or defence. The specification of the functions is fixed, at the national level, by Resolution MPOG 42, of 14 April 1999.

4 Social welfare, health, work, education, culture, citizen rights, housing, special planning, sanitation, environmental management, agrarian organization, sports and entertainment.

5 Data from the latest Household National Survey (PNAD 2006, IBGE).

6 General Price Index-Internal Supply.

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of GDP in 2004 to 1.57% in 2007. The level of funding for health is clearly insufficient to achieve the mission set out in the 1998 Constitution: to set up a universal, effective and free public health system.

According to the World Health Organization (WHO), total Brazilian public expenditures on health, including the budgets of states and municipalities, come to only 3.45% of GDP. The situation is even worse than this indicates, since 24% of the population use private health coverage and insurance. When combined with family spending on medicines, expenditures on health total 4.1% of GDP (IPEA, 2007).

Decreasing social functions

The real increase of 48.53% in social security funding from the 2005 to 2007 budget was due to programmes involving income transfers, such as *Bolsa Família* (Family Help), as well as an increase in the number of people who receive the Continuous Income Benefit[7] due to a reduction in the age at which people qualify[8] and a real increase in the minimum wage. At the same time, funding for universities went down.

Funding for other programmes that guarantee rights also declined.[9] For example in 2007, 82% of budget allocations were disbursed during the same year. However the rate was far lower in categories such as Urban Planning (15%), Housing (0.037%) and Sanitation (2.24%). Other areas with low levels of actual spending included Environmental Management (35.9%), Citizen Rights (49.3%), Culture (43.2%) and Agrarian Organization (67.1%). On the other hand, the disbursement rate is high in sectors where spending is compulsory under the Constitution or through legislation, such as Social Security, Social Welfare, Health, Education and Labour.

While budgetary expenses in areas that ensure the material conditions essential to ESCE rights were being reduced, Brazil was paying more than BRL 795 billion (USD 408.74 billion) in interest, surcharges and amortization on the debt in the 2004-2007 period. These resources were transferred to the financial sector of the economy, primarily benefiting 20 thousand individuals living on income from property or investments. (Pochmann *et al.*, 2004).

The lion's share of finances

Debt payments, were 26.84% of the budgets for social and fiscal security in 2004 and climbed to 30.71% in 2007. With interest and amortization, in the four years of the 2004-2007 Pluriannual Plan, they totalled twice as much as funding related to ESCE rights.

To finance this massive transfer of wealth to the owners of the financial surplus, mainly in the banking sector, the Government had to turn over a considerable portion of the revenues it collected while starving public programmes that ensured rights.

One of the mechanisms that permitted this transfer is the Release of Federal Government Entitlements (DRU), which allows the Government to allocate 20% of all taxes and social contributions collected "freely" within the budget. The social policies suffering most from this diversion have been Social Security and Education. For example, in 2006, data from the Secretariat of the National Treasury showed that total income transfers from Social Security via the DRU reached BRL 33.8 billion (USD 15.8 billion); in 2007 the Ministry of Education lost BRL 7.1 billion (USD 4 billion). These were funds collected for social welfare, social security and health programmes and diverted to the fiscal budget, mainly to make up the primary surplus.

The poorest pay the bill

Another factor affecting social justice is the source of the taxes, tariffs, contributions, and other revenues used to pay for public expenses. Although Brazil is among the ten richest economies in the world,[10] it has one of the highest income disparities on the planet. This skewed distribution of income helps perpetuate inequality among social classes. In 2000, salaries accounted for 32.1% of GDP; in 2005 that proportion was down to 31.7%. In the same period, earnings from gross operational surplus rose from 34% to 35.2% of GDP.

Rather than mitigate this concentration of wealth, the tax system reinforces it, aggravating the fiscal burden of the poor and alleviating that of the rich.

Low income families are the most heavily burdened by the tax structure as their consumer expenses are proportionately higher. It has been estimated that families with incomes of up to two minimum salaries have an indirect tax burden equal to 46% of their earnings, while families with an income equal to 30 minimum salaries pay only 16% of their income in indirect taxes (Zockun, 2005).

Between these indirect taxes, direct contributions to the social security system required for eligibility to its benefits and the diversion of some of that money to other purposes, the people who finance the programmes that promote ESCE rights are the beneficiaries themselves. ■

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7 The Continued Income Benefit, which substituted the old Monthly Income For Life, guaranteed by the Social Welfare Organic Law, aims at ensuring an income equivalent to a minimum salary to all citizens who through old age or disability cannot support themselves. The benefit is extended to old persons and persons with disabilities for leading an independent life, whose per capita monthly family income is below a quarter of the minimum salary, regardless of their contribution towards social security.

8 The first age limit for qualifying for the Continued Income Benefit was set at 70 years (1996) and was lowered to 67 years in 1998. With the passing of the Old Age Statute in 2003 the limit was lowered to 65 years.

9 The follow-up of budget execution is carried out by relating disbursed amounts against authorized amounts in the budget. The result shows what proportion of the planned expense became rendered services or acquired goods. This relation shows the level of efficiency of the Government.

10 World Bank. World Development Indicators database. Available at: <siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf>.

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