DEMOCRACY AND SOCIAL POLICY SERIES


THE SYSTEM OF SOCIAL PROTECTION IN BRAZIL

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Translated by Jenny K. Pilling and Mara Conner

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<tr>
<td>AIS</td>
<td>Ações Integradas de Saúde (Integrated Health Programs)</td>
</tr>
<tr>
<td>ARENA</td>
<td>Aliança Renovadora Nacional (National Renewal Alliance)</td>
</tr>
<tr>
<td>BNDE</td>
<td>Banco Nacional de Desenvolvimento Econômico (National Economic Development Bank)</td>
</tr>
<tr>
<td>BNH</td>
<td>Banco Nacional da Habitação (National Housing Bank)</td>
</tr>
<tr>
<td>CEF</td>
<td>Caixa Econômica Federal (Federal Economic Savings and Credit Bank)</td>
</tr>
<tr>
<td>CEME</td>
<td>Central de Medicamentos (State Pharmaceutical Enterprise)</td>
</tr>
<tr>
<td>COHABs</td>
<td>Companhias de Habitação (Housing Companies)</td>
</tr>
<tr>
<td>DATAPREV</td>
<td>Empresa de Processamento de Dados da Previdência Social (Social Security Data Processing Enterprise)</td>
</tr>
<tr>
<td>DNER</td>
<td>Departamento Nacional de Endemias Rurais (National Department of Rural Endemic Diseases)</td>
</tr>
<tr>
<td>FAS</td>
<td>Fundo de Apoio de Desenvolvimento Social (Social Development Support Fund)</td>
</tr>
<tr>
<td>FGTS</td>
<td>Fundo de Garantia por Tempo de Serviço (Employee Savings Fund)</td>
</tr>
<tr>
<td>FGV</td>
<td>Fundação Getúlio Vargas (Getúlio Vargas Foundation)</td>
</tr>
<tr>
<td>FIBGE</td>
<td>Fundação Instituto Brasileiro de Geografia e Estatística (Brazilian Geographical and Statistical Institute Foundation)</td>
</tr>
<tr>
<td>FICAM</td>
<td>Programa de Financiamento da Construção, Conclusão, Ampliação ou Melhoria da Habitação de Interesse Social (Program for Financing the Construction, Completion, Extension, or Improvement of Housing in the Social Interest)</td>
</tr>
<tr>
<td>FINSOCIAL</td>
<td>Fundo de Investimento Social (Social Investment Fund)</td>
</tr>
<tr>
<td>FNDE</td>
<td>Fundo Nacional de Desenvolvimento da Educação (National Education Development Fund)</td>
</tr>
<tr>
<td>FPAS</td>
<td>Fundo de Previdência e Assistência Social (Social Security and Welfare Fund)</td>
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FUNABEM  Fundação Nacional de Bem-Estar do Menor  
National Children's Welfare Foundation

FUNRURAL  Fundo de Assistência ao Trabalhador Rural  
Rural Workers' Assistance Fund

GDP  Gross Domestic Product

IAP(s)  Instituto(s) de Aposentadorias e Pensões  
Retirement and Pension Institute(s)

IAPAS  Instituto de Administração Financeira da Previdência Social  
Social Security Financial Administration Institute

IBGE  Instituto Brasileiro de Geografia e Estatística  
Brazilian Geographical and Statistical Institute

INAMPS  Instituto Nacional de Assistência Médica Previdenciária  
National Health Insurance Institute

INAN  Instituto Nacional de Alimentação e Nutrição  
National Food and Nutrition Institute

INPS  Instituto Nacional de Previdência Social  
National Social Security Institute

INSS  Instituto Nacional do Seguro Social  
National Social Insurance Institute

IPEA  Instituto de Planejamento Econômico e Administrativo  
Economic and Administrative Planning Institute

LBA  Legião Brasileira de Assistência  
Brazilian Aid League

LOPS  Lei Orgânica da Previdência Social  
Organic Law of Social Security

MOBRAL  Movimento Brasileiro de Alfabetização de Adultos  
Brazilian Movement for Adult Literacy

MPAS  Ministério da Previdência e Assistência Social  
Ministry of Social Security and Welfare

NGO(s)  nongovernmental organization(s)

PAIE  Programa de Alimentação dos Irmãos dos Escolares  
Schoolchildren's Sibling Meals Program

PAN  Programa de Apoio Nutricional  
Nutritional Aid Program

PASEP  Programa de Formação de Patrimônio do Servidor Público  
Civil Servants' Asset Formation Program

PAT  Programa de Alimentação do Trabalhador  
Workers' Meals Program
<table>
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<tr>
<th>Acronym</th>
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<tr>
<td>PCA</td>
<td>Programa de Complementação Alimentar (Complementary Food Program)</td>
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<tr>
<td>PDS</td>
<td>Partido Democrático Social (Democratic Social Party)</td>
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<tr>
<td>PDT</td>
<td>Partido Democrático Trabalhista (Democratic Labor Party)</td>
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<tr>
<td>PFL</td>
<td>Partido da Frente Liberal (Liberal Front Party)</td>
</tr>
<tr>
<td>PIASS</td>
<td>Programa de Interiorização das Ações em Saúde e Saneamento (Program for Interiorization of Health and Sanitation Services)</td>
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<tr>
<td>PIS</td>
<td>Programa de Integração Social (Social Integration Program)</td>
</tr>
<tr>
<td>PLANHAP</td>
<td>Plano Nacional de Habitação Popular (National Low-Income Housing Plan)</td>
</tr>
<tr>
<td>PMDB</td>
<td>Partido do Movimento Democrático Brasileiro (Brazilian Democratic Movement Party)</td>
</tr>
<tr>
<td>PME</td>
<td>Programa de Merenda Escolar (School Lunch Program)</td>
</tr>
<tr>
<td>PNAD</td>
<td>Pesquisa Nacional por Amostra de Domicílios (National Survey by Household Samples)</td>
</tr>
<tr>
<td>PNAE</td>
<td>Programa Nacional de Alimentação Escolar (National School Meals Program)</td>
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<tr>
<td>PNLCC</td>
<td>Programa Nacional de Leite para Crianças Carentes (National Milk Program for Needy Children)</td>
</tr>
<tr>
<td>PNS</td>
<td>Programa de Nutrição em Saúde (Nutrition in Health Program)</td>
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<tr>
<td>PRN</td>
<td>Partido da Reconstrução Nacional (National Reconstruction Party)</td>
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<tr>
<td>PROFILURB</td>
<td>Programa de Financiamento de Lotes Urbanizados (Urban Lots Financing Program)</td>
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<tr>
<td>PROMORAR</td>
<td>Programa de Erradicação da Sub-Habitação (Program to Eradicate Substandard Housing)</td>
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<tr>
<td>PRONAN</td>
<td>Programa Nacional de Alimentação e Nutrição para o Grupo Materno-Infantil (National Food and Nutrition Program for Mothers and Infants)</td>
</tr>
<tr>
<td>PRORURAL</td>
<td>Programa de Assistência ao Trabalhador Rural (Rural Workers’ Assistance Program)</td>
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<tr>
<td>PSA</td>
<td>Programa de Suplementação Alimentar (Nutritional Supplement Program)</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>PSD</td>
<td>Partido Social Democrático</td>
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<td></td>
<td>Social Democratic Party</td>
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<tr>
<td>PSDB</td>
<td>Partido da Social Democracia Brasileira</td>
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<tr>
<td></td>
<td>Brazilian Social Democracy Party</td>
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<tr>
<td>PT</td>
<td>Partido dos Trabalhadores</td>
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<td></td>
<td>Workers' Party</td>
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<td>PTB</td>
<td>Partido Travhalista Brasileiro</td>
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<td></td>
<td>Brazilian Labor Party</td>
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<tr>
<td>RMV</td>
<td>Renda Mensal Vitalícia</td>
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<td></td>
<td>Lifelong Monthly Income</td>
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<tr>
<td>SEAC</td>
<td>Secretaria Especial de Ação Comunitária</td>
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<td></td>
<td>Special Secretariat for Community Action</td>
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<tr>
<td>SFH</td>
<td>Sistema Financeiro Habitacional</td>
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<tr>
<td></td>
<td>Housing Finance System</td>
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<tr>
<td>SINPAS</td>
<td>Sistema Nacional de Previdência e Assistência</td>
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<tr>
<td></td>
<td>Social e Assistência Social</td>
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<tr>
<td></td>
<td>National System of Social Security and Welfare</td>
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<tr>
<td>SUDS</td>
<td>Sistema Unificado e Descentralizado de Saúde</td>
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<tr>
<td></td>
<td>Unified and Decentralized System of Health Care</td>
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<tr>
<td>SUS</td>
<td>Sistema Unificado de Saúde</td>
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<td></td>
<td>Unified System of Health Care</td>
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Introduction

The consolidation of the Brazilian welfare state in the mid-1970s, under the aegis of an authoritarian regime, reinforced the conservative features that have characterized the system throughout its existence and that maintain an intimate relationship with the socioeconomic structure of low salaries, poverty, and social exclusion on which it is based. These conservative features are: the notion of social security supporting the system; protection, first for urban workers formally linked to the job market and then for segments of the corporatively organized middle class, as opposed to basic social rights granted to all citizens; fragmented access, associated positively with systems of force, bargaining, and privileges, and negatively with low levels of universality and uniformity of social benefits; and high proportionality between benefits, on one side, and employment, wages, and past contributions, on the other; terms fostering low levels of redistribution.

Placed within the international panorama, the Brazilian social policy system can best be examined by using the concept of the social welfare state (Estado do Bem Estar Social) and by approximating it to the conservative or meritocratic-particularist model according to current international classifications.¹

During the 1980s, in a movement apparently coinciding with the general direction of modifications of social welfare states since World War II, serious attempts were made in Brazil to displace the conservative model in favor of an institutional-redistributive system of comprehensive social protection. This movement was extremely problematic, given the context of social crisis in which it occurred, under extreme conditions of poverty, coupled with severe restrictions on public sector financing.

While reform agenda begun in the 1980s achieved some of its objectives—and from this perspective, social policy effectively prevented the crisis from further eroding living conditions—the direction of reform in the 1990s seems to be rapidly shifting. Earlier themes are reemerging in new forms, suggesting alternatives that could reverse the direction of the movement. The dilemmas posited for the new decade once again question the current system of social protection, which has a number of serious weaknesses, particularly in the area of financing. In addition, the possibilities of producing a generous profile of social interventions have narrowed,

¹ We believe this general concept to be adequate for treating the Brazilian case; however, it should be clear that we are building a particular typology of welfare state, which could be classified as conservative or meritocratic-particularist, based on the typologies of Esping-Andersen (1990), Tittmuss (1958) or Ascoli (1984), who distinguish this from two other types, the residual or liberal and the social-democratic or institutional-redistributive.

* Elsewhere in the paper 'seguridade social' is rendered as 'social protection' to distinguish it from 'previdência social,' which is translated as 'social security,' similar to the US sense of the system of benefits related to temporary or permanent inability to work.—ED.
imposing priorities on a more rigid field of choices. Furthermore, there appears to be a new consensus on the urgency of making state actions into more active, concentrated, progressive forms of intervention, thus weakening the neoliberal argument that seemed to be gaining hegemony at the beginning of the decade.

This paper will examine the Brazilian social policy system in light of these issues.

Part I

Construction and Expansion of the Welfare State in Brazil

1. Historical Summary

Between the 1930s and the 1970s, a specific system of social protection was constructed and institutionally consolidated in Brazil. The concepts and typologies cited in the introduction suggest three criteria to observe in the reconstruction of this movement’s chronology. One is the substantive contents of the social policies that, at different moments, composed the heart of the welfare state. They include mechanisms of social security and welfare benefits, the construction of an integrated network of primary and secondary education, and health care and housing policies. Another is the character of a nationally articulated system acquired by this body of legislation, rules, benefits, and social protection services, leading to complementary relationships that did not exist initially. Finally, the national state assumes an

* The distinction between social security and welfare is less strongly marked in Brazil than in the United States, and there is considerable overlap with regard to both administration and financing. As the Brazilian social protection system developed since the 1930s, it came to include both work-related, social insurance programs, which usually pay according to the level of contributions received, and some universal welfare programs, which usually allocate benefits according to need. For example, the largest component of social security spending, retirement benefits (and associated pensions), is a contributory workers’ insurance program while the second largest, the Lifelong Monthly Income (RMV), is a universal program for invalids and elderly people who have made no social security contributions. Unemployment benefits are another example of an insurance program; on the other hand, the Brazilian Aid League, which was integrated into the social security system in 1969, administers several food and nutrition programs that are supposed to be universal and means-tested. The social security component of the public health system began as an insurance program, but the eligibility distinction between insured and uninsured was abolished in the 1980s and the public health system is now accessible to the entire Brazilian population (at least in theory).

For convenience, health care is treated as a separate category in this paper. Public safety-net programs for food and nutrition, FUNABEM, and other cash or kind benefits awarded on the basis of need are grouped together as ‘welfare’ programs. ‘Social security’ is used to refer to retirement benefits (and associated pensions), RMV, and other benefits related to temporary or permanent inability to work.

The term ‘welfare state’ (Estado do Bem Estar) is retained because of its historical associations but should be understood to refer to all types of social programs connected with the state (from federal to local government levels), including education, health, housing, labor protection, social security, and welfare, with different types of programs (and levels of government) varying in importance over time within the whole. (See also footnote 1.)—ED.
organizational and regulative character to guarantee the dynamics and permanence of the system, both in relation to the public dimensions of the organization—in its internal relations and with economic policy in general—and to the private sector, producer and provider of social goods and services.

These are the criteria that permit us to consider the 1930s as the point of departure for this movement in Brazil: the rupture of the oligarchic state and its federalist base and the emergence of a new form of state (Estado Novo), which centralized and concentrated power, endowing itself with mechanisms that facilitated the implementation of national policies. These policies constituted the political and institutional conditions that gave rise to a new and more substantial arena of public action, legalizing and self-legitimizing state presence in the field of social protection.

Legislation produced within the period 1930–1943 was fundamentally concerned with the creation of retirement and pension institutes (Institutos de Aposentadorias e Pensões or IAPs), and with labor legislation which was consolidated in 1943. While these were clearly the most important innovations, the period also saw changes in public health and educational policies, where high degrees of policy ‘nationalization’ appeared in the form of centralized resources and institutional and administrative instruments at the federal executive level (protecting certain powers typical of the federal organization of the country).

Between 1945 and 1964, within the limits of the existing democratic regime, there was a simultaneous movement toward legal-institutional innovation (in education, health, social welfare and, to a lesser degree, public housing) and the expansion of the social protection system within the parameters defined by the innovations of the 1930–1943 period. At the same time, there were advances in the processes of institutional centralization and in the incorporation of new social groups into social protection schemes. These occurred within a pattern of social intervention by the state that was simultaneously selective (regarding beneficiaries), heterogeneous (regarding benefits), and fragmented (institutionally and financially).

The period from the mid-1960s to approximately the mid-1970s was very different in nature, content, and social impact. This was the consolidation phase of the system when, relative to the previous period, the body of legislative measures took on a radically transformed vision of the institutional and financial framework behind social policy.

Supporting these measures were the accelerated processes of industrialization, urbanization, and transformation of Brazil's social structure. Social policy changes were radical due to the organization of national or state-regulated public systems in the areas of basic social goods and services (education, health, welfare, social security, and housing). These surpassed their earlier fragmented and socially selective forms, paving the way for various universalizing tendencies, specifically the implementation of social policies with wide coverage of the lower
class. Additionally, a number of social policy innovations emerged: state intervention in housing was approved, mechanisms were introduced for establishing workers' assets and profit sharing with the Employee Savings Fund (Fundo de Garantia por Tempo de Serviço or FGTS) and the Civil Servants' Assets Formation Program (Programa de Integração Social-Programa de Formação de Patrimônio do Servidor Público or PIS-PASEP), and there were moves to extend social protection to rural workers, although their coverage was limited and they continued to suffer from social discrimination.

Thus, under the authoritarian and technocratically inclined regime installed in 1964, Brazil's social policy system was completed: the solid core of state social intervention was defined; the centralized apparatus to support this intervention was set up; the funds and resources to finance social policy measures were established; the principles and operational mechanisms were defined, as were the rules of social inclusion/exclusion that characterized the system. In the mid-1970s a massive expansion occurred under this model, but by the late 1970s symptoms of exhaustion and crisis were beginning to show up in its organizational, financial, and social aspects. In fact, the 1980s began with an agenda of reforms composed of two levels and two types of issues. On one hand, the beginning of the political transition at the end of the 1970s imposed the issue of democratization of the system. Above all, the rules of inclusion/exclusion, the privileges and inequalities, and the hypercentralized mode of organization and decision-making were questioned. Social and political forces, fighting for the end of the authoritarian regime, proposed more democratic forms of the state, which necessarily resulted in an examination of the prevalent standard of social protection.

On the other hand, questions were raised about the instability and fragility of the system's financial basis, which was very sensitive to economic cycles and employment rates, as well as to average and total salaries paid in the economy. The economic recession at the beginning of the decade aggravated this structural condition, creating space for alternative proposals for financing and resource allocation.

In response to these two main issues, attempts to restructure the system were undertaken, albeit timidly. At the beginning of the 1980s the technocracy of the military regime adopted measures to financially reinforce the system, adjusting revenues and expenditures. The 1982 creation of the Social Investment Fund (Fundo de Investimento Social or FINSOCIAL) and the modification of contribution rates were steps in this direction. In 1985 the new civilian government began to develop a time plan and an ambitious set of reforms intended to democratize the system and reinforce its financial basis. These proposals were eventually presented to the Constitutional Congress and some of them were adopted in the 1988 Constitution.
New policies were implemented and a new agenda of reforms was formulated at the close of the 1980s and the beginning of the 1990s. The institutional modifications of 1988 and the aggravation of socioeconomic conditions—perceived and evaluated through ideological and political filters very different from those at the beginning of the decade—led to the proposal of new alternatives for organizing social protection in the country. Even before this new agenda was completely developed, it was becoming clear that the cycle that began in the 1980s had exhausted itself while possibilities for rethinking the welfare state in alternative terms were gaining strength.

The chronology of the development, consolidation, crisis, and restructuring of the welfare state in Brazil is summarized in Chart 1. This sequence can be explained first by the organizational ability of labor groups and later by professional segments of the middle class. Nevertheless, particular moments of change and of the expansion and generalization of benefits were closely associated with characteristics of the larger political system, especially those of the state. The three moments of greatest institutional modification and legislative production occurred during the three periods of most intense alterations in the contemporary Brazilian state: 1930, 1964, and 1985–1988.

<table>
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<td>The Welfare State in Brazil by Periods</td>
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- **1930–1964** Introduction and fragmented expansion
  - 1930–43 - Introduction
  - 1943–64 - Fragmented and selective expansion

- **1964–1977** Institutional consolidation
  - 1964–67 - Institutional consolidation
  - 1967–77 - Massive expansion

- **1977–1988** Crisis and attempts at reformulation
  - 1977–85 - Conservative adjustment
  - 1985–88 - Progressive reformulation attempts

- **1988** Restructuring the system
  - New Constitution

- **1988–1991** Implementation of reforms
  - Formation of new reform agenda

In the earlier period, urban worker groups in the public sector (e.g., dock workers and railroad workers) succeeded most quickly in obtaining access to social security benefits. They were followed by groups in industrial and service activities, and later by middle-class professionals and civil servants. Finally in 1971 rural workers belatedly gained restricted benefits. Although the introductory and consolidation phases were characterized by strong and concentrated movements towards generalization, uniformization, and even universalization of coverage and
benefits, it was only with the restructuring of 1988 that, in terms of the redefinition of the general principles of the system, new movements towards a more universalistic and homogeneous model of social policy were introduced.

Chart 2 illustrates the most important legislative measures between 1930 and the end of the 1980s, indicating the construction and restructuring of the Brazilian welfare state.

2. Political and Ideological Characteristics

The formation and expansion of Brazil's social protection system are directly linked to the authoritarian periods of Getúlio Vargas (1930–45; 1950–54) and the post-1964 military regime. The manner in which the organizational structures of the state became fixed and their influence in the formational processes of policies and in the configuration of forms of political mediation among social actors allow us to distinguish three principal periods:

1. 1930–1964, the period of formation and fragmented expansion of the system, can be subdivided into organic corporatism (1930–1945) and populist democracy (1945–1964), both strongly characterized by populist ideology.
2. 1964–1980, characterized by the relationship between an authoritarian regime with a technocratic/modernizing ideology and the consolidation of the system of social policies.
3. The beginning of the 1980s, democratic transition and crisis in the political system in relation to transformations of social policies.

This section examines these three periods by analyzing the political and ideological determinants that characterized the consolidation process and crisis of the social policy system. We will identify only the most outstanding features of the relationship between the political system and the system of social policies. Chart 3 provides a brief chronology of recent political history, illustrating the changes and most significant characteristics of the political regime between 1930 and 1990.

2.1 Populism and Social Policy

It is commonplace in the literature\(^2\) to explain the evolution of social policies in Brazil after 1930 as the result of particular actions of a centralized, authoritarian, and developmentalist state as opposed to the result of direct pressure from organized social forces and group or class interests, channeled through the structures of representation. This tendency expresses one of

\(^2\) See Malloy (1986); Santos (1979); Abranches (1982); Draibe (1989).
### Chart 2

#### The Welfare State in Brazil
Development and Recent Transformation

<table>
<thead>
<tr>
<th>Period</th>
<th>Social Security</th>
<th>Welfare</th>
<th>Health</th>
<th>Education</th>
<th>Housing</th>
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<tbody>
<tr>
<td>I—a Introduction</td>
<td>1930–1938 Retirement and Pension Institutes (IAPs)</td>
<td></td>
<td>Creation of Ministry of Education and Health</td>
<td>1930 Basic schooling for four years</td>
<td>IAPs finance housing for those covered</td>
<td>1940 Minimum Salary</td>
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<td>1930–1943</td>
<td>1940 Workers’ Meals Program</td>
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<td>1931 Francisco Campos Reform and secondary</td>
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<td></td>
<td>1942 Brazilian Aid League (LBA)</td>
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<td>education organization</td>
<td>education reform (secondary education)</td>
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<td></td>
<td>1942 National Service for Public Health (SESP)</td>
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<td></td>
<td>1942 Capanema Reform (secondary education)</td>
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<td></td>
<td>1950s Pregnant mothers’ food programs and school children’s meals program</td>
<td>1953 Ministry of Health</td>
<td>1953 Ministry of Education</td>
<td>1946 Low-Income Housing Foundation</td>
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<td>selected expansion</td>
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<td>Endemic Diseases (DNER)</td>
<td>Guidelines and Federal Council on Education</td>
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<td>- Work cards</td>
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<td>1943–1964</td>
<td>1964 National Children’s Welfare Foundation (FUNABEM)</td>
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<td>- 8-hour work day</td>
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<td>- Paid vacation</td>
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<td>- Occupational safety and health</td>
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<td>- Paid maternity leave</td>
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<td>1949 One week paid vacation</td>
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<td>1962 Christmas bonus</td>
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<td>1963 Family wage</td>
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<td>Period</td>
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<td></td>
<td>Rural Workers' Assistance Fund (FUNRURAL)</td>
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<td>1970 Adult literacy program (MOBRAL)</td>
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<td>1972 Domestic servants covered</td>
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<td>1971 Extension of basic education to 8 years</td>
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<td>1974 Ministry of Social Security and Welfare;</td>
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<td>1972 Text books</td>
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<td></td>
<td>Social Security Data Processing Enterprise (DATAPREV); Lifelong Monthly Income (RMV)</td>
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<td>1977 National System of Social Security and Welfare (SINPAS); Unification; Social Security and Welfare Fund (FPAS) created</td>
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<td>1975 Nutrition in Health Program (PNS)</td>
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<td>1976 PRONAN II</td>
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<td></td>
<td>1977 Complementary Nutrition Program (PCA), Workers' Food Program (PAT)</td>
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<td>1977 National Health Insurance Institute (INAMPS)</td>
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<td></td>
<td>1973 National Low-Income Housing Plan (PLANHAP)</td>
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<td></td>
<td>1975 Program for Financing Urban Lots (PROFILURB)</td>
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<td></td>
<td>1977 Program for Financing the Construction, Completion, Extension, or Improvement of Housing in the Social Interest (FICAM)</td>
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1972 Funds created from payroll funds (PIS-PASEP)
### Chart 2 (Cont.)

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<th>Period</th>
<th>Social Security</th>
<th>Welfare</th>
<th>Health</th>
<th>Education</th>
<th>Housing</th>
<th>Labor</th>
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<tbody>
<tr>
<td><strong>V Restructuring the system</strong> 1988 Constitution</td>
<td>Concept of social security expanded (social security, health and welfare)</td>
<td>Institution of the right to protection of the family, maternity, infancy, adolescence, and old age; Benefit of one minimum salary to the elderly and disabled</td>
<td>Unified System of Health Care (SUS)</td>
<td>Extension of rights to nurseries and preschools</td>
<td>Low-income housing program developed by the private sector (PROHAP)</td>
<td>Reduction of work week; 6-hour work day for continuous shifts; Paid holidays; Extension of rights to domestic workers; Extension of right to strike and freedom to organize</td>
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<tr>
<td>Period</td>
<td>Political Regime</td>
<td>President of the Republic</td>
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<tr>
<td>1930–1945</td>
<td>POPULIST AUTHORITARIANISM Implantation of state corporativism; labor populism</td>
<td>Getúlio Vargas</td>
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<tr>
<td>1985</td>
<td>DEMOCRACY Full party pluralism; universal suffrage including illiterates; free elections at all levels; presidential system; Federal Republic</td>
<td>Tancredo Neves (March-April 1985; Democratic Alliance) José Sarney (1985–1989; Democratic Alliance)</td>
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<tr>
<td>1988</td>
<td>Promulgation of the Constitution</td>
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<td>1989</td>
<td>Direct elections for the president in two rounds</td>
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<td>1990</td>
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<td>Fernando Collor de Mello (1990–1992; PRN)</td>
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</table>
the characteristic dimensions of state-society relations in the process of socioeconomic regulation
and capitalist modernization which has marked the recent history of the country.

In effect, 1930 marks the beginning of the formation of the modern national state, which
plays a strong role in capitalist industrialization and current social transformations, in a style distinct
from the classic model of bourgeois revolution. Using the concept of 'state of compromise,'
Weffort (1988) defined the particularities of this state, endowed with special autonomy based on
the hegemonic incapacity of all the dominant sectors—oligarchies and urban-industrialists. The
product of a prolonged agrarian crisis, of increasing political pressure from popular sectors, and of
the economic dependence of urban middle sectors, the state of compromise expressed the
absence of hegemony of the dominant groups, acted as an arbitrator among these interests, and
had its source of legitimacy in a direct, not institutionally mediated relationship with the masses.

The fact that this state acted simultaneously as an institution and a source of political
power in the process of expanding citizenship seems fundamental in comprehending the
movement to develop and expand social policies, legitimized as popular policies and justified,
according to populist thought, as policies 'of national interest.' Without harming the interests of
oligarchs or agro-exporters, the state's social policies considered the interests of the urban middle
sectors and the industrial bourgeoisie, by increasingly including urban masses and excluding the
rural sector. On this unstable field of fragmented and heterogeneous interests, state autonomy
was grounded. Autonomy was limited, however, because it reproduced the prevalent forms of
domination and responded to interests present in the transformation process. Thus, the state's
regulatory and interventionist capacities gained shape through policies aimed at multiple and
conflictive interests.

It is noteworthy that the Brazilian state, while still in the process of constructing a national
state, had already expanded its structures to strengthen a social arena—education, public health,
social security, and welfare. This progressive extension of state power into social areas, which
sought to define the political and ideological parameters of its citizens' socialization process and to
consider the objectives of a stage of capital accumulation, was significantly different from the
classic models of contemporary welfare state formation. It distinguished itself from models that,
according to historical and political particulars in various countries, were guided by the progressive
incorporation of citizenship through state policies responding to demands for more equality.

In Brazil the industrialization process, while deepening the structural heterogeneity of the
economic system, accentuated the fragmentation of an already segmented social structure. This
hampered the formation of collective identities and intensified the divergence of interests—even
among social segments participating in the same productive sectors—with serious political

3 On the autonomy of the Brazilian state from 1930 to 1960, see Draibe (1985).
implications. In addition to destabilizing the political coalitions of the propertied classes, extreme social fragmentation stimulated constant disputes among the dominant interests and frequent political realignments, rendering the coalition that supported the state extremely unstable.

Although the process of economic development implied increasing fragmentation and social heterogeneity, it was accompanied by growing state intervention in the socioeconomic sphere. This phenomenon, recurrent in contemporary capitalism, has significant political consequences, especially regarding government policies. One consequence was a tendency to concentrate control mechanisms and policy formation in the executive branch. The decisive locus of state power was established in the organs of the executive, to the detriment of the legislature's decision-making capacity, and fostered conflict over the resources of power at the disposal of the executive. These aspects are clearly identifiable in all social policies, especially in the central feature of state social intervention—social security.

A second consequence, and a corollary to the first, was the tendency of private interests, through various forms of co-optation or pressure, to capture the administrative organs of the state. Due to the absence of effective forms of representing and expressing the interests of society, the direct presence of dominant interests and, in some situations, of those within the governmental apparatus of social policies, constituted the most effective access channel for the interests at play. In sum, as the state expanded its apparatus and its capacity to regulate and intervene in additional areas of social and economic life, the very formulation and implementation of these actions exacerbated the politicization of opposing interests within the centralized structures of the state. Thus, the bureaucracy became the center of conflicts which plagued the state organs linked to the social arena, intensifying the political dimension of technical decisions.

The organization of the social security system in the 1930s was a crucial component of the Vargas dictatorship, operating as a decisive source of power in the formation of his political regime. Conceived as a system that divided the working classes into specific sectors through IAPs, which were organized in corporatist structures controlled by the central government, it simultaneously created barriers to entering the political arena—incorporating only those professional, unionized categories recognized by the state—and defined those who could make legitimate demands on social policies such as education, public health, and housing.

The state's emphases on modernizing the productive structure, on industrial accumulation, and on social regulation via 'regulated citizenship' (Santos 1979) conditioned the structure of inequalities that marked the economic development process. These emphases also conditioned the structure of political conflict between the dominant and the dominated, with the predominant practices of co-optation and repression mediated by the state.
The social security system implanted by Vargas remained practically intact until the 1960s. Besides its importance in the structure of co-optation and control, the system contributed to the tremendous expansion of the state apparatus and its functional power.

With the creation of the Ministry of Labor in 1931, the responsibility for defining and initiating social policies transferred from the legislative to the executive, manifesting the nature of corporatist state domination (Schmitter 1971). Decisions over expansion, allocation of social benefits, and the administrative development of the IAPs now belonged to the executive. Social security coverage for professional categories recognized by the state was guaranteed, placing the expansion of social rights at the mercy of the political weight and role in the productive structure of the urban workers regulated by the state.

The ‘weak’ point of the social security system turned out to be the interconnection between the state bureaucracy and union leaders, generated by the system itself. This had important political consequences after the rupture of Vargas’s authoritarian regime. First, as the organizational structures of the state expanded, the number of semiautonomous entities pressuring in defense of particular interests also expanded. Second, as the class base expanded, new channels emerged through which the state-organized working class increased the volume of demands on the system. Third, disputes heated up between the state and union bureaucracies over maintaining their respective positions of power over the social security machine.

During the period of populist democracy, the full consolidation of the co-optation model operated via social policies. As the workers’ movement became more dependent on the system of privileges administered by the state and political parties, social conflict became structured on two levels. In the sphere of production, the unions pressured to maximize the economic interests of the workers. In the distributive sphere, the conflict was structured bureaucratically through the defense of privileges acquired by the labor categories recognized by the state; furthermore, these privileged categories tended to oppose reforms debated in the legislature.

The utilization of social policy to expand participation in a context of low liberal institutionalization (Santos 1988) had two consequences. On one hand, the space for political action and the strength of the state bureaucracy in the allocation of resources and social benefits increased before liberal values and ideology became hegemonic in the process of political socialization. On the other hand, the formation of collective identities by political parties was hindered. The legislative branch was therefore transformed into an arena of debates over social reforms that became immobile if the initiatives did not result from direct pressure on the state by competitive interests. The classic example is the 14-year period before the social security reform
was approved as the Organic Law of Social Security (Lei Orgânica da Previdência Social or LOPS) in 1960.4

Although political parties were constituted as essential supports to the executive under the populist democracy, the very logic of electoral politics based on the Social Democratic Party-Brazilian Labor Party alliance (Partido Social Democrático-Partido Trabalhista Brasileiro or PSD-PTB, parties created and controlled by Vargas) ended up reinforcing the distributive-clientelist dynamic of the previous regime. Party and union elites who mediated the interaction between the popular classes and the state solidified their control over the political system. Furthermore, the internal divisions of the regime coalition exacerbated tensions between the state (and military) bureaucracy and the union bureaucracy. The former positioned themselves against the party machine and propitiated the technocratic action of the executive. The latter aligned themselves with the parties to block state initiatives and to secure particularistic access to the distributive arena.5

Vargas's return to power through elections and the mobilization of the salaried urban classes brought about the increased centrality of social security policy in the process of power legitimation. As a source of power for the urban salaried masses, the social security machine—under the aegis of the PTB and the union bureaucracy—found itself divided between the rationalization of the system proposed by the technical experts and the resistance of workers' forces entrenched in the social security institutions.

Risking extreme analytical simplification of the relationship between populism and social policy, one can characterize the process of social policy formation during the populist period around two principal axes. First, policy initiative—defining issues and proposing reforms—were monopolized by the administrative elites. Second, loyalty to the dominant power pact was guaranteed in the distributive arena through the distribution of social benefits in accordance with electoral cycles and the occupation of strategic posts in the bureaucratic machine—principally social security institutions—by union leaders. Thus, the clientelism-patronage-corporatist relationship constituted a key mechanism for the control by politicians of the urban working-class vote.

With the regime change in 1964 the authoritarian state, faced with the crisis of populist alliance and heightened social conflict, promoted widespread restructuring of social policies around the growth of large business complexes as part of the process of transforming the productive system and redirecting capital accumulation. A new phase had begun: its

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4 See Cohn (1981) and Malloy (1986).
5 This conflict was particularly visible in the impasse surrounding the social security reform. Sought by the social security technocracy, the reform was blocked in the legislature by interest groups linked to the parties.
development would be conditioned by the state’s new organizational structures and the technocratic-modernizing ideology of bureaucratic elites.

2.2 Bureaucratic-Authoritarianism and Social Policy

Restructuring the model for social intervention under authoritarianism accentuated the inequity of Brazil’s social policy system, despite the increasing incorporation of new social groups, expansion of benefits, and the tendency towards universalization in some areas of sectoral intervention. Subordinated to the imperatives of economic policy, social policy decisions were made and implemented as privative decisions of the technocracy, within the authoritarian power structure. Popular sectors were excluded from the political process, political parties were eliminated, the activities of unions and social movements were repressed, the legislative was marginalized, and decision-making was centralized. Given this suspension of political citizenship, some analysts view the expansion of social policies under authoritarianism as the regime’s attempt at legitimating itself (Andrade 1980).

The 1967 Tax Reform federalized sectoral policies, reducing the financial capacity of states and municipalities and impeding them from directly intervening in the production of social goods and equipment. This process redefined the degrees of dependence in intergovernmental relations. At the same time, however, large organizational complexes were created at local, regional, and national levels, with ample capability to intervene and produce social goods and services. Reordering the social policy apparatus was primarily articulated around two of these large complexes—the Housing Finance System (Sistema Financeiro Habitacional or SFH) and the Health Insurance/Social Security Complex (Complexo Médico-Previdenciário), although all areas of social policy went through profound transformations.

This strategy was solidified by the allocation of resources through negotiated transfers, by the logic that basic social investment should be self-financing, and by the multiplication of autonomous public entities, state enterprises, and foundations, resulting in extreme institutional fragmentation. Consequently, this model engendered an increased number of channels for articulating private interests within the governmental machine; overlapping activities; and the emergence of privileged groups with connections to state power and the bureaucracy, totally protected from any type of public control, given the nature of the regime.

One can distinguish three main phases in the development and implementation of social policies during the authoritarian period:

a) 1964–1974: the complex system of social intervention was established and consolidated, instituting a centralized control apparatus for program development and installing finance mechanisms linked to business interests. Privatization of
social policies was accentuated, particularly in the areas of housing and medical assistance. The political power of state bureaucratic agencies grew, gaining increasingly autonomous control of policies and co-opting business interests, in a context of extremely centralized decision-making and complete closure of participating channels.

b) 1974–1980: characterized by increased relaxation of the authoritarian order and gradual opening of the relations between the regime and the opposition which, through the electoral process, applied considerable pressure for the redefinition of the regime. The Council for Social Development (Conselho de Desenvolvimento Social) was created and, through the Second National Development Plan (II Plano Nacional de Desenvolvimento), the state forged a new direction for the social policies system. It gave priority to low-income sectors, increased the political and organizational space for governmental decisions on social policy, and promoted a tremendous expansion of state structures and social spending. In this context of controlled political opening, the space for clientelism in some social programs grew, aimed at increasing the regime’s chances of electoral success.

c) 1980–1984: this phase marks the crisis of the social policy system within a context of economic crisis and the agony of the military regime. As we shall see, some tentative social policy reforms were outlined in this period.

One central aspect of bureaucratic-authoritarianism, thoroughly analyzed in the literature, was the alliance of the military and the technocracy which, from the Estado Novo on, increased their scope of action within the state apparatus. It is important to remember that the authoritarian regime did not adopt a corporatist approach to the social policy system, such as the one under populism. The most paradigmatic example of rupture from the earlier model appears to be the elimination of representation from the social security system (in 1967), associated with the separation of the union bureaucracy from the state apparatus, political persecution of union leaders, repression of workers’ movements, and the abrogation of political parties. Instead of stimulating class organization or establishing corporatist links as the base for political rule, the state tended to relate to civil society through the co-optation of individuals and private interests, thereby excluding any type of representation. This was exemplified by strong clientelistic actions of the Federal Council on Education (Conselho Federal de Educação), by the predominantly clientelistic relationship between the National Housing Bank (Banco Nacional da Habitação or BNH) and private real estate–linked interests, and by the relationship between the National Health Insurance Institute (Instituto Nacional de Assistência Médica Previdenciária or INAMPS) and the business sector involved in producing health services.

The increased autonomy of the state’s technocratic segment in defining and implementing policy is notable. Since the official ideology emphasized the technical character of government policy formulation, a hierarchic and technocratic mentality prevailed. It was based on a strengthened state apparatus, the nonpartisan character of government and public policy, the

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imposition of political exclusion rules benefiting the business sector, and the depoliticization of decision-making in keeping with the technical, administrative rationality.

The enormous expansion of bureaucratic spheres in the diverse social areas of the state apparatus created a unique situation. On one hand, the regime sought to destroy the traditional bureaucracies linked to education, health, etc. Discouraged by low salaries, lack of career plans, and the lack of programs for professional qualification, the bureaucratic corps in the social area adopted the saying *Ganha-se mal, mas trabalha-se pouco* (The pay is bad but the workload is light). On the other hand, given the demand for defining suitable policies and programs to meet the objectives of sociopolitical control and economic development, the regime created 'pockets' of high-level bureaucrats, which formed virtual 'islands' of competence and specialized knowledge within the state.

In practice, however, factional politics reappeared. Because the idea of representation had been eliminated from the official ideology and the state-society relationship was guided by the obscure criteria of co-optation, the process of choosing valid interlocutors of the technobureaucracy tended to obey two rules:

a) Those who control the state apparatus choose who will participate in the decision-making process and for how long.\(^7\)

b) Interest groups that penetrate the decision-making circles seek to promote their own particular interests, *without being recognized as legitimate representatives or delegates of their own constituents.*

From 1968 to 1973 this 'bureaucratic rings' mode of articulating interests (F.H. Cardoso 1974) predominated under the military regime. Beginning in 1974, with the gradual opening of the electoral process, competition for state benefits increased as the centers of power progressively fragmented.

Throughout the opening process there were signs of change in the state-society relationship, especially in the formation and implementation of social policies. The tendency of social policies to operate through clientelism became more visible. For example, the implementation of the Rural Workers' Assistance Fund (Fundo de Assistência ao Trabalhador Rural or FUNRURAL) was used in part for political and electoral ends (Malloy and Parodi 1988). Aliança Renovadora Nacional (ARENA), the incumbent party, set up a system of clientelistic patronage and began to penetrate the executive, taking over intermediate administrative positions. The clientelistic network also enabled ARENA to widen its electoral bases of support.

During the period of regime opening, we also note the strong tendency to allocate federal resources for social policy development in the Northeast (especially for low-income housing,

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\(^7\) For more on the functioning of the bureaucratic-authoritarian regime, see F.H. Cardoso (1982), 48–51.
childcare centers, and food programs). This process led to the redefinition of regional patterns of domination. A group of young politicians, with a more technical profile and a new message, were named as mayors of the Northeastern state capitals. They initiated a new style of governance, emphasizing participation and decentralization. With ties to the rising local urban capital, these mayors implemented a vast program of low-income housing and extended their control over the social movements in the peripheries of urban centers.\(^8\) This process, forging loyalty between the federal sphere and the Northeastern states, strengthened party structures linked to the regime: the Partido Democrático Social (PDS) and, in the 1980s, the Partido da Frente Liberal (PFL).

The expansion of social policies within the climate of political opening encouraged the association of professional groups, directly or indirectly linked to sectoral politics. Within the area of health care, the medical-sanitary movement played an important role; unionization intensified; and with the expansion of group health care, new associations linked to the business sector arose. In the educational sector, organizations at various levels of public and private schooling proliferated. Various professional associations concerned with influencing housing policy emerged such as the Brazilian Association of Architects (Associação Brasileira de Arquitetos). The number of organizations with ties to real estate businesses also grew significantly. With varying degrees of access to actual decision-making levels, these associations imposed a new dynamic on social policy implementation.

Those who benefited from social policies also organized themselves in movements, reflecting the functional differentiation of the state apparatus: BNH loan recipients, retirees, People Without Land, People Without Housing (Movimento dos Sem-Terra e dos Sem-Teto), and the National Confederation of Tenant Associations (Confederação Nacional das Associações de Moradores). Organizing was also intense in urban areas, expanding at an explosive rate at the end of the 1970s. Urban associations articulated the demands from the outlying urban areas for child care centers, health care, transportation, and sanitation. The ineffectiveness of the social policy model consolidated under the authoritarian regime reinforced a new conception of rights among those who were targeted by unproductive policies or those who demanded inclusion in the system, and it promoted new forms of social solidarity.

The dynamic of the political opening set in motion social forces in opposition to the regime. This stimulated discussion about the perverse model of economic growth, which was increasing inequalities, and put social policy reforms back at the center of political debate. The 1979 party system reform that ended bipartism, the role of business, legal, and scientific associations in the emerging political debate, the rise of a new unionism, and the multiplication of

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\(^8\) Several names stand out among these young Northeastern mayors: Agripino Maia (Natal), Gustavo Krause (Recife), Tasso Jereissatti (Fortaleza), Fernando Collor de Meio (Macêdo). In Natal alone 45,000 housing units were constructed between 1978 and 1985 (Andrade 1985).
associations in the emerging political debate, the rise of a new unionism, and the multiplication of social movements in the cities and the countryside, influenced primarily by the Church, mark the emergence of a society that has organized itself slowly and has experienced an increased degree of heterogeneity and social inequality. These factors conditioned the political debate and the transition agenda in the 1980s.

3. Structural Characteristics and Dynamics of the System

3.1 Programs, Criteria of Eligibility, and Clientele

3.1.1 Social Security

The public social security system began in the 1930s with the creation of the IAPs, which covered risks related to the temporary or permanent loss of ability to work (old age, disability and sickness, and survivors' benefits) and organized medical assistance services. In the previous decade, organized segments of the workers' movement had achieved some regulation in the relationship between employees and employers in the workplace (the Eloi Chaves Law of 1923) as well as legislation on work-related accidents, jointly with the creation of mutual aid societies organized in the anarchist tradition.

Structured by worker category, according to local and regional divisions, the IAPs created a heterogeneous system of benefits, with little uniformity. This situation improved in 1961—after many attempts and despite strong resistance—when the social security reform law (LOPS) equalized benefits for all salaried urban workers formally registered in the benefit system. A new centralizing impulse occurred in 1967, under the military regime, with the creation of the National Social Security Institute (Instituto Nacional de Previdência Social or INPS), which unified the IAPs. In 1977 an extensive restructuring took place and the National System of Social Security and Welfare (Sistema Nacional de Previdência e Assistência Social or SINPAS) was created, administered by a new Ministry of Social Security and Welfare (Ministério da Previdência e Assistência Social or MPAS). SINPAS was composed of six units: the Social Security Financial Administration Institute (Instituto de Administração Financeira da Previdência Social or IAPAS), the accounts receivable and payable agency for the entire system; the Social Security Data Processing Enterprise (Empresa de Processamento de Dados da Previdência Social or DATAPREV), a data-analysis company; INPS, responsible for social security benefits; the Brazilian Aid League (Legião Brasileira de Assistência or LBA) and National Children's Welfare Foundation (Fundação Nacional de Bem-Estar do Menor or FUNABEM), two social welfare organizations; and INAMPS, the entity responsible for medical services. Thus, a superstructure was created, centralized at the ministerial level but functionally decentralized through public entities and
institutes, which gained increasing autonomy. By the late 1970s this system employed some 250,000 people.

The initial core of benefits was comprised of retirement benefits and pensions (old age, disability, length of service, and dependents' and survivors' benefits) and medical services. In 1967 the system incorporated the program for work-related accidents, which until then had been administered separately. In 1974 another benefit, the Lifelong Monthly Income (Renda Mensal Vitalícia or RMV), was created for invalids and the elderly over 70 who had not contributed to social security. Three family benefits were created between 1963 and 1974: family pay, maternity pay, and a maternity benefit for the last month of pregnancy. By the mid-1970s, the urban social benefit plan included 18 types of benefit, while the rural plan included only six. Most noteworthy are the small number and extremely low payment levels of family benefits.

The social security system did not develop an unemployment insurance program until the mid-1980s. The Employee Savings Fund (FGTS), created in 1966 as a substitute for the stability statute which benefited workers with 10 or more years on the job, was intended to protect the unemployed but failed to do so. Based on length of service, the FGTS was to be used in case of being fired, for retirement, or for a down payment on a house. Whether because of faulty design or due to the high turnover of low-income workers, many were not able to build assets in the fund. In 1986, at the time of the Cruzado Plan, an unemployment insurance program was created but, lacking its own funding, it depended on available Treasury funds. Only with the 1988 Constitution was an unemployment insurance program introduced into the Brazilian social security system. The basic criterion for access is the worker's participation in the formal market (proof of 15 months of work in the last two years); present coverage is close to 43% of those employed.

Prior to 1970, social security benefits were allocated almost exclusively to urban workers; federal civil servants enjoyed a separate plan, also administered by social security. In 1971, the FUNRURAL was created to extend benefits to rural workers. Domestic workers were integrated in 1972, followed by self-employed workers in 1973. Some additional categories were added later: members of religious orders, students, and homemakers. Workers formally linked to the job market qualified for urban social security, according to terms of contribution, differentiated by type of benefit. Before 1988, legal retirement age for men was 70 and for women 65; after 1988 these ages dropped to 65 and 60, respectively. Another type of retirement—for length of service—is guaranteed to beneficiaries who have worked 35 years (men) or 30 years (women).

These benefits were financed by a tripartite system of employee and employer contributions and state resources and administered by the Social Security and Welfare Fund (Fundo de Previdência e Assistência Social or FPAS), which also finances health care and welfare benefits. In the 1960s the state ceased to participate in the funding relationship but became responsible for personnel and administrative costs as well as covering the system's eventual
deficits. However, the state's payment of the system's expenditures was below constitutionally imposed levels; it covered 10% at the beginning of the 1970s and approximately 3% during the years 1985–1988.

The Brazilian social security system was based on the organizational principles of individually contracted social insurance; access is gained through proportional contribution. A noncontributive principle was tenuously introduced through assistance programs, medical benefits, and especially RMV, a noncontributive pension. The extension of some basic benefits to rural workers in 1971 reinforced the noncontributive principle. These benefits did not require worker contributions since their administration was financed by rural employers and a percentage of urban social security revenues. The 1988 Constitution, as we will see, enforces the contributive principle but anticipates the possibility of organizing a general plan of minimum benefits, in addition to affirming the principle of selectivity.

Most social security benefits are based on previous income and employment and never exceed the income levels on which contributions are based. Thus, the unemployed and those outside the formal job market are excluded, and among the retired, the income disparities that existed during their years of employment continue. From a redistributive point of view, the system provides transfers only among those covered (and their dependents): from economically active to nonactive; from healthy to sick; and, in small part, from insured contributors to beneficiaries who did not contribute—rural workers and RMV beneficiaries.

Through the incorporation of additional social sectors, the system grew enormously, making benefits more general and uniform, although still stratified. In a segmented and diffused manner, the system aggregated multiple diverse loyalties and corporately organized interests through various political dynamics of expansion and support.

3.1.2 Welfare

Historically, Brazil developed public safety-net programs that were generally of an assistencial and sporadic nature, not tied to contributions and designed to respond to emergencies. In 1942, following the process of state centralization and facing demands imposed by World War II, LBA was created. In 1969 it was integrated into the social security system. The league developed aid programs for children (care and food), mothers and nursing mothers, the elderly, and disabled. Since 1964 FUNABEM has cared for needy and abandoned children and juvenile offenders.

Food and nutrition programs, targeted primarily at the maternal-infant group, were developed in the mid-1970s. Most were run by the National Food and Nutrition Institute (Instituto Nacional de Alimentação e Nutrição or INAN), created in 1972 as part of the Ministry of Health.
These programs consisted of food supplementation—through the Nutrition in Health Program (Programa de Nutrição em Saúde or PNS); the School Lunch Program (Programa de Merenda Escolar or PME); the Complementary Food Program (Programa de Complementação Alimentar or PCA); and the Workers' Meals Program (Programa de Alimentação do Trabalhador or PAT)—the production and commercialization of basic foods, and specific nutritional activities. PAT is conceptually and operationally distinct from the others; it is organized by businesses through fiscal incentives and counts on a proportional contribution from employees. A National Milk Program for Needy Children (Programa Nacional de Leite para Crianças Carentes or PNLCC) was created in 1986. It distributes one litre of milk per day to children under age seven through a system of vouchers and includes organized community groups in its operation.

Welfare programs expanded significantly in the mid-1980s. They are not tied to previous contributions but are selectively directed to the needy population. Their eligibility criteria theoretically involve some type of income identification. Usually, the upper limit for eligibility is a family income of two minimum salaries. In addition to the income ceiling, the food and nutrition programs identify the targeted public according to age or by specific groups, such as pregnant or nursing women. The school lunch program also is an exception to the general rule; it is distributed to the entire school-age population between seven and fourteen years old registered in the public system. Since 1986, school lunch has been extended to siblings of schoolchildren in the four- to six-year age group who are not yet in school.

3.1.3 Health Care

Before 1930, Brazil had no national health policy. Various state or federal organisms sporadically developed public hygiene campaigns, and fragmented health services were offered by businesses or, beginning in the 1920s, by retirement funds of some employment sectors. After the 1930 creation of the Ministry of Education and Health (Ministério de Educação e Saúde) and its National Department of Health and Social-Medical Assistance (Departamento Nacional de Saúde e Assistência Médico-Social), two structures were organized: public health, carried out by the Ministry through national campaigns, and health insurance, administered through the medical services of the IAPs.

This dual plan, although initially dominated by the public health sector, over time tended to favor the health insurance sector, which emphasized curative, hospital-centered medicine to the detriment of preventive and primary care. In 1949 13% of the public health budget went to curative medicine and 87% to preventive medicine. By the late 1980s the proportions were almost reversed—78% was spent on curative and 22% on preventative medicine. This had serious policy implications, inhibiting the formation of a national health system. Despite earlier
attempts, such a system did not take shape until the Unified System of Health Care (Sistema Unificado de Saúde or SUS) was created by the 1988 Constitution.

It is difficult to identify the most important programmatic lines of the health care policy during the period from the late 1960s until the 1980s. Large national hygiene campaigns and campaigns against endemic diseases and epidemics were carried out. The Maternal-Infant Health Program (Programa de Saúde Materno-Infantil), serving a potential clientele of 70% of the population, made a significant impact on maternal-infantile morbidity and mortality rates. The program, developed by the Ministry of Health, INAN, and the state secretaries of health, includes maternal assistance (prenatal and birthing assistance and meal supplements) and aid to children and adolescents (health checkups to monitor the development and growth of children under five, encouragement of breast feeding, nutritional supplements).

The gravest distortions in the system were introduced by its tendency to emphasize health insurance/curative cure and by a decreasing commitment on the part of the federal government which, in the 1960s, had begun to universalize medical attention and expand health care coverage. During the 1980s eligibility distinctions between the insured and uninsured with respect to medical attention were eliminated, but the incipient universal health care system remained heavily dependent on resources from social security contributions. These resources were experiencing big oscillations and the system floundered in a perverse matrix of conflicts which, especially in a time of economic crisis, tended to pit pensioners and retirees against those needing medical attention—given that spending for the former is naturally more rigid and resistant to reductions.

From the point of view of institutional organization and relations between the public and private sectors, two characteristics dominated health care policy prior to the 1980s. First, the exaggerated centralization of funds and decision-making power within INAMPS and the Ministry of Social Security and Welfare relegated the Ministry of Health and the state and municipal secretaries responsible for health care programs to the background. The great novelty of the second half of the 1980s (when SUS was introduced) was decentralization, giving the health system a strong municipal focus.

Second, the health care dimension of the Brazilian welfare state was based on a tight partnership between the state and the private sector. The state accredited doctors and contracted with private sector hospital services, clinics, and laboratories. This strongly influenced the formation and strengthening of interests linked to the private medical-business complex, responsible for 70% of medical services offered in the country in the mid-1980s. This was not merely a strong autonomous private sector offering medical services within the Brazilian welfare state. It was, rather, an important mechanism for strengthening the private sector through public funding, even for original investments—a kind of privatization of policy that produced paradoxical
results during the restructuring of the system in the 1980s. In this period, in addition to influencing priorities and political options, a certain 'statization' occurred, as the state's ability to continue financing the system became limited and as the private sector, facing a reduction in its funding, began to distance itself from the system, reinforcing other channels such as group medicine contracts with businesses. The new decentralized, municipal model of assistance, which has been taking effect since 1987, has been revising the hospital-centered model, causing some displacement of the private sector, which has always had less of a presence in primary health care.

3.1.4 Education

The first republican constitution in Brazil (1891) defined free, mandatory, four-year primary education and outlined the responsibilities of the federal government, states, and municipalities in providing education and creating an educational network. The Brazilian state, however, did not have the institutional resources to sustain an effective national education policy.

It was only at the height of the centralizing transformations and the statist and nationalist ideology of the 1930 Revolution that the federal government unleashed an effective movement to organize a national educational system. It elaborated codes and 'organic' laws aimed at establishing guidelines and an organizational structure for the various branches, systems, and levels of education in the country.

Since the 1930 legislation that created the Ministry of Education and Public Health (Ministério de Educação e Saúde Pública), and throughout the Estado Novo's elaboration of laws regarding levels and methods of teaching, the educational system sought to become nationally integrated, with increased state control over education. This polarized conflicts with the private—especially religious—sectors of education, but the system's fundamental principles were maintained, allowing for the definition of the jurisdiction of various units of the federal organization of the ministry and for regulation of relations with the private sector and the technical-vocational network administered by the business sector with financing from payroll contributions—the National Service of Industry (Serviço Nacional de Aprendizado Indústria or SENAI) and the National Service of Commerce (Serviço Nacional de Aprendizado Comercio or SENAC). Between the end of the 1960s and the beginning of the 1970s educational reform established a division of jurisdictions: the federal sphere became responsible for higher education; the state for primary and secondary education; and the municipalities for preschool. Free, mandatory, basic education was extended from four to eight years and the professionalizing content of primary and secondary school programs was emphasized. Later reforms reduced this emphasis, but failed to offer a clear alternative model relating education to employment. This remains one of the most important issues in current discussions of education in Brazil.
The state at its three levels—national, states, and municipal—is the main provider of education in Brazil, except for higher education.9 In 1989 the autonomous private educational sector had 34% of preschool enrollment, 14.5% of elementary, 34.6% of secondary, and 61.5% of higher education (university undergraduates).

From the late 1960s to the mid-1970s the universalization of primary education constituted the main educational challenge for the federal, state, and municipal governments. The military regime’s preoccupation with illiteracy initiated an ambitious national program of adult literacy training (Movimento Brasileiro de Alfabetização de Adultos or MOBRAL), with frustrating results. The 1988 Constitution projected the eradication of illiteracy by the end of the century, assigning 50% of the federal government’s educational resources to literacy programs. In 1989, the illiteracy rate was still 20.1%, though this was lower than the 1981 figure of 24.9%.

Within this institutional framework, the educational system expanded markedly during the 1970s. Nearly universal access was achieved at the primary level.

3.1.5 Housing

A national housing system with clear objectives and goals, and with specific financial mechanisms, did not appear until 1964. All previous measures in the area of housing carried out by the IAPs and the Low-Income Housing Foundation (Fundação da Casa Popular or FCP) were specific and modest in design.

The 1964 creation of the Federal Service for Housing and Urban Development (Serviço Federal do Habitação e Urbanismo), linked to BNH and the National Housing Plan (Plano Nacional de Habitação), defined the pillars of Brazil’s housing policy. The system was backed financially by the interest from FGTS investments and by savings account deposits. Designed to stimulate construction of public housing and financing for private home ownership, especially for low-income sectors of the population, this policy enjoyed the strong support of the state, as financier and provider, and of the private sector, which carried out the policy and produced the housing units.

Access to individual housing assistance was originally based on three income brackets: ‘popular’ (popular), for family incomes of up to three minimum salaries; ‘economic’ (econômico) for family incomes between three and six; and ‘average’ (medio), for six minimum salaries and up. In fact, the system differentiated between the low-income stratum, on the one hand, and the middle- and upper-income brackets on the other. In both, the state played a strategic role. And both were administered according to the principle of self-financing and safe investment returns, with no consideration of subsidies to those with less ability to pay. The system, therefore, diverted

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9 During the military period, a certain kind of ‘privatization’ occurred within higher education, as the government stimulated (and sometimes subsidized) the expansion of private colleges.
programs from the popular sectors and reinforced those for the middle class, which guaranteed the best investment return.

In the mid-1970s the system underwent several changes. Responding to increased demands for housing, new, unconventional programs were developed for the neediest sector. At the same time, heavy subsidies were granted to middle- and upper-income borrowers when loan adjustments became linked to salary adjustments, a solution imposed by the economic crisis and the high rates of inflation.

These modifications were not sufficient, however, to resolve the bottlenecks of housing policy. Having accumulated extremely large deficits, the system collapsed financially in the 1980s. The BNH was abolished in 1986, and since then the country has been without an effective housing policy. During the 1980s, state and municipal governments were responsible for innovative housing initiatives, but their results were modest, lacking definition and alternative resources other than those available from FGTS, the only financial base for housing policy.

3.2 Profiles and Dimensions of the Beneficiaries

Two characteristics of the Brazilian welfare state's organization deserve attention: 1) the speed of incorporation; and 2) the enormous size of the system and its numerous clientele, principally of its social security, welfare, education, and health care subsystems. Both characteristics play a significant role in explaining its greatest successes—and many of its most serious difficulties.

3.2.1 Social Security

The social security system, following the previously discussed principles of access, inclusion, and exclusion, has reached its highest points of incorporation in the last three decades. In 1990, the social security system covered 48 million people (35 million contributors and 13 million retirees and pensioners) and their dependents. The system retains youthful characteristics, receiving relatively little pressure from the demographic structure of the population: during the 1980s, the rate of social security dependence hardly changed, maintaining a ratio of 2.5 insured for every beneficiary.

The beneficiary clientele of the social security system is made up primarily of retirees and pensioners, followed by those receiving RMV. In recent years, primarily since the mid-1970s, retiree groups have significantly increased their organization and mobilization capacity, in response to a reduction in benefit values. Gaining voice and influence, they were relatively successful during the voting process for the 1988 Constitution and the complementary legislation regarding benefit plans and the cost of the social security system.
Given the rules of access, we can assume that nearly 48% of the economically active population (EPA) who do not satisfy the formal conditions of eligibility are still excluded from the system. Exclusion is most common in highly informal sectors with unstable work relations, such as civil construction and unskilled urban services.

### 3.2.2 Welfare

Characterizing and measuring the numbers of welfare beneficiaries is troublesome because programs and clientele frequently overlap. Due to the practice of registering the service provided rather than the person served, multiple counting of the same clients is common. Though fully aware of these difficulties, we tentatively offer some data.

Participation levels of children and adolescents in LBA welfare programs are shown in Table 1. In 1988, an additional 1,048,000 children were served by official contracts or in FUNABEM aid sites. Thus, LBA and FUNABEM together served close to 3,064,000 children in nurseries, vocational courses, day schools, and orphanages. In the same year, LBA claims to have served close to 15 million people, including physically and mentally disabled persons, the elderly, and participants in community programs, basic social training, and work programs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Nursery</th>
<th>Nutritional aid</th>
<th>Health care measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>21,280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>467,392</td>
<td>231,998</td>
<td>6,647,070</td>
</tr>
<tr>
<td>1984</td>
<td>1,015,037</td>
<td>216,573</td>
<td>5,227,718</td>
</tr>
<tr>
<td>1986</td>
<td>920,336</td>
<td>297,365</td>
<td>3,273,761</td>
</tr>
<tr>
<td>1988</td>
<td>2,016,981</td>
<td>1,380,037</td>
<td>1,021,151</td>
</tr>
</tbody>
</table>

Sources: LBA, General Reports, several years; NEPP/UNICAMP 1990

Accurate assessment of participation levels in food and nutrition programs is also hindered by multiple counting. Again risking overestimation, we record official data from various programs in Table 2.
### TABLE 2

<table>
<thead>
<tr>
<th>Food and Nutrition Programs Clientele (in thousands)</th>
<th>Brazil, 1984–1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programs&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1976</td>
</tr>
<tr>
<td>PNAE</td>
<td>11,719</td>
</tr>
<tr>
<td>PAIE</td>
<td>—</td>
</tr>
<tr>
<td>PCA/PAN</td>
<td>—</td>
</tr>
<tr>
<td>PNS/PSA</td>
<td>1,022</td>
</tr>
<tr>
<td>PNLCC</td>
<td>—</td>
</tr>
<tr>
<td>PAT&lt;sup&gt;b&lt;/sup&gt;</td>
<td>768</td>
</tr>
</tbody>
</table>

Source: NEPP/UNICAMP (1991)

<sup>a</sup> The National School Meals Program (Programa Nacional de Alimentação Escolar or PNAE); the Schoolchildren's Sibling Meals Program (Programa de Alimentação dos Irmãos dos Escolares or PAIE); the Complementary Food Program/Nutritional Aid Program (Programa de Complementação Alimentar/Programa de Apoio Nutricional or PCA/PAN); the Nutrition in Health Program/Nutritional Supplement Program (Programa de Nutrição em Saúde/Programa de Suplementação Alimentar or PNS/PSA); the National Milk Program for Needy Children (Programa Nacional de Leite para Crianças Carentes or PNLCC); and the the the Workers' Meals Program (Programa de Alimentação do Trabalhador or PAT).

<sup>b</sup> 1977 data

Major discrepancies exist in the information on potential and actual coverage of food and nutrition programs. The school lunch programs for students and siblings of students (PNAE and PAIE) may reach as many as 80% of all school children. If we take supplemental meals programs for children up to age six, excluding school lunches, official data indicate that close to 13 million children are enrolled. Recent research has revealed, however, that the actual number of participants is only 4.4 million. In the case of targeted programs for pregnant and nursing women (PCA/PAN and PNS/PSA), the same research indicated that of the 1.8 million pregnant women in 1989, a mere 10% were signed up for supplemental nutrition programs. Also, according to this source, to achieve universal care for the low-income maternal-infantile group (in families earning two minimum salaries or less), it would be necessary to serve approximately 1.9 million pregnant and nursing women, seven million children under age four, and five million preschool children ages four to six.

(Table 4 given a general summary of the dimensions of Brazil's social policy system and the population covered by these programs in 1988 and 1989.)
3.2.3 Health Care

Before 1970, the most outstanding characteristic of the clientele needing health care services was the dichotomy between those insured by the social security system and those uninsured—each with very different rights and access to the health care system. Given the universalization that formally took place in the 1980s, the system's clientele today potentially comprises the entire Brazilian population of 150 million people, with varying needs according to age and income, geographic location, the epidemiological profile of the regions in which they live, and the concrete conditions of access to the public-private health care system. It is important therefore, to examine the system's capacity to meet health care needs according to these specific characteristics.

The capacity of Brazil's health care system increased during the 1970s and 1980s: between 1976 and 1986, the number of health care centers increased by more than 135%—from 13,133 to 30,672. Most of this growth occurred in the out-patient network (health care centers without overnight admittance) which increased from 7,823 to 23,953 centers between 1976 and 1986. The public sector was largely responsible for these increases, administering 71.8% of the system in 1986. The private sector administered 13.3%, and the rest were run by philanthropic and charitable organizations. The number of hospitals increased at more modest rates, from 5,310 in 1976 to 6,920 in 1986. Although the public sector registered a higher rate of growth—5.2% versus 2% for the private sector—in 1986 the private sector still administered 76% of hospitals.

The number of hospital beds per population followed a growth trend similar to that of the hospital system. The 1960 rate of 3 beds per 1,000 inhabitants increased to 4.2 in 1982, and then fell to 3.6 in 1986. In this movement, the relative participation of the public sector decreased, falling from 27% of hospital beds in 1976 to 22.3% in 1986. The hospital system registered a declining trend in overall admission rates during the 1980s. The gross annual admission rate per 100 inhabitants reached a high of 11.0 in 1981, decreasing thereafter to 5.3 in 1989.

Employment in health-related professions increased during the 1980s. Between 1981 and 1986, the number of total positions rose from 515,800 to 696,600; that of doctors increased from 155,819 to 206,382. Accordingly, the number of annual medical consultations per inhabitant rose from 1.9 in 1981 to 2.4 in 1986, approaching the World Health Organization's (WHO) standard of 2.8 medical consultations per adult inhabitant.

Unfortunately, reliable information on the performance and coverage of primary health care programs is not available. We only have records of vaccination coverage of children under one year of age, which register notable increases in immunizations against polio, DPT (combined
diphtheria, polio, and tetanus), and measles between 1975 and 1980. By 1988 polio and DPT coverage had again increased while measles coverage decreased.

3.2.4 Education

The educational system expanded significantly during the 1970s and 1980s, principally at the elementary level but also at the preschool and advanced levels. In 1989 the clientele under this system, consisting of those registered at all levels of education and under all administrative jurisdictions, public and private, totaled 36,129,904 students, taught by 1,716,979 teachers, and distributed in 264,023 centers of instruction. The majority of enrollment (76%) was in elementary education, followed by preschool and secondary education (both 10%), and higher education (4%).

Enrollment patterns between 1960 and end of the 1980s show vigorous growth rates for the elementary level prior to 1980. During the 1980s, the increase in preschool enrollment was extraordinary. University-level enrollment expanded considerably in the 1970s, then grew at more modest rates, even declining in the latter half of the 1980s. Secondary education enrollment grew at a moderate rate.

Brazil's educational enrollment rates have been among the lowest in Latin America, with an overall average rate of approximately 55%. Only at the elementary level has effective progress been made towards universalization of access and a marked expansion of coverage. Roughly 85% of the population between ages 7 and 14 were enrolled during the 1980s, up from 76% at the end of the previous decade. In some regions this figure was above 90%. At the preschool level, enrollment of children of up to 6 years old rose steadily from 5.9% in 1980 to 15.3% in 1989—one of the most remarkable social and educational outcomes of the 1980s. Enrollment rates of the population between 15 and 19 in secondary education increased modestly between 1980 and 1989 from 14.5% to 16.5%. Nevertheless, the secondary level apparently has been able to adequately absorb the low number of students moving up from the elementary schools—the biggest problem associated with that level. At the university level where enrollment is determined by entrance exams, the number of applicants per available spaces dropped from 4.5 in 1980 to 3.9 in 1989. Universities offered 4,450 courses in 1989 and 227,000 people graduated.

3.2.5 Housing

Likewise, there is a shortage of generally accepted statistics on the beneficiaries of the various housing programs, the housing deficit, and the number of people benefiting from new housing units. We will briefly indicate a few of these figures, estimated through less than ideal methods.
Between 1965 and 1984, the federal housing system produced an estimated 4,575,992 housing units and urban lots, financed by the government. As shown in Table 3, a significant part of these resources benefited higher income groups. Although beneficiaries with family incomes of 5 minimum salaries or less represented 65% of the total recipients, they received only 20% of total financing. Eighty percent of the financing benefited 35% of the recipients—many in middle and upper income brackets. Due to inadequate information, we are unable to assess the production of housing units by states and municipalities after the federal housing system collapsed in the mid-1980s.

<table>
<thead>
<tr>
<th>FAMILY INCOME (MINIMUM SALARIES)</th>
<th>MAXIMUM UNITARY VALUE OF FINANCING (STANDARD UNIT OF CAPITAL)</th>
<th>NO. OF BORROWERS</th>
<th>FINANCING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>To 1.5</td>
<td>450</td>
<td>20</td>
<td>1.3</td>
</tr>
<tr>
<td>1.5 to 3.5</td>
<td>900</td>
<td>32</td>
<td>5.1</td>
</tr>
<tr>
<td>3.5 to 5.0</td>
<td>1,350</td>
<td>13</td>
<td>14.1</td>
</tr>
<tr>
<td>5.0 to 7.0</td>
<td>1,800</td>
<td>12</td>
<td>20.4</td>
</tr>
<tr>
<td>7.0 to 9.0</td>
<td>2,250</td>
<td>10</td>
<td>22.3</td>
</tr>
<tr>
<td>9.0 to 11.0</td>
<td>2,700</td>
<td>5</td>
<td>11.9</td>
</tr>
<tr>
<td>11.0 to 16.5</td>
<td>3,500</td>
<td>7</td>
<td>23.2</td>
</tr>
<tr>
<td>ABOVE 16.5</td>
<td>5,000</td>
<td>1</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Brazilian Savings and Credit System (Sistema Brasileiro de Poupança e Crédito or SBPC), BNH

A 1989 study of housing needs, conducted by the Ministry of Interior, estimated that 6.6 million new units were needed, 17 million units needed improvement, and 3.1 million units needed to be restored. Assessing only the needs of low-income families with per capita incomes of 0.75 minimum salaries, the deficit of social priority housing was estimated at approximately 6 million (Ministry of Interior 1989; Martoni Branco, Silva, and Tadeschi 1989).
**TABLE 4**

Summary of Principal Brazilian Programs and Clientele

<table>
<thead>
<tr>
<th></th>
<th>Population Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOCIAL SECURITY (1988)</strong></td>
<td></td>
</tr>
<tr>
<td>Contributors and retirees (1990)</td>
<td>48,000,000</td>
</tr>
<tr>
<td>Insured</td>
<td>29,361,276</td>
</tr>
<tr>
<td>% of EAP</td>
<td>18.10%</td>
</tr>
<tr>
<td>Work-related accidents</td>
<td>1,000,296</td>
</tr>
<tr>
<td>% of EAP</td>
<td>1.64%</td>
</tr>
<tr>
<td>Retirees</td>
<td></td>
</tr>
<tr>
<td>Disability</td>
<td>6,319,011</td>
</tr>
<tr>
<td>Old age</td>
<td>2,068,846</td>
</tr>
<tr>
<td>% of population 65 years and older</td>
<td>2,835,185</td>
</tr>
<tr>
<td>Length of service</td>
<td>1,414,680</td>
</tr>
<tr>
<td><strong>WELFARE (1988)</strong></td>
<td></td>
</tr>
<tr>
<td>Nurseries</td>
<td>2,016,981</td>
</tr>
<tr>
<td>LBA</td>
<td></td>
</tr>
<tr>
<td>% of population 0–3 years</td>
<td>15.49%</td>
</tr>
<tr>
<td><strong>Food and Nutrition (1989)</strong></td>
<td></td>
</tr>
<tr>
<td>Programs for children</td>
<td></td>
</tr>
<tr>
<td>PNAE</td>
<td>27,993,257</td>
</tr>
<tr>
<td>PAIE</td>
<td>5,100,000</td>
</tr>
<tr>
<td>PNLCC</td>
<td>7,601,000</td>
</tr>
<tr>
<td>PCA/PAN (1988)</td>
<td>1,957,619</td>
</tr>
<tr>
<td>PNS/PSA (1988)</td>
<td>6,129,000</td>
</tr>
<tr>
<td>Programs for workers</td>
<td></td>
</tr>
<tr>
<td>PAT (1988)</td>
<td>4,410,292</td>
</tr>
<tr>
<td><strong>HEALTH (1988)</strong></td>
<td></td>
</tr>
<tr>
<td>General clientele (total population)</td>
<td></td>
</tr>
<tr>
<td>No. of health care centers</td>
<td>33,632</td>
</tr>
<tr>
<td>No. of hospital admissions</td>
<td>7,659,895</td>
</tr>
<tr>
<td>% of total population</td>
<td>5.42%</td>
</tr>
<tr>
<td>No. of consultations</td>
<td>333,383,895</td>
</tr>
<tr>
<td>% of total population</td>
<td>240.72%</td>
</tr>
<tr>
<td>No. of hospital beds</td>
<td>527,196</td>
</tr>
<tr>
<td>% of total population</td>
<td>0.37%</td>
</tr>
<tr>
<td><strong>EDUCATION (1989)</strong></td>
<td></td>
</tr>
<tr>
<td>Enrollment</td>
<td></td>
</tr>
<tr>
<td>Elementary</td>
<td>27,640,000</td>
</tr>
<tr>
<td>Secondary</td>
<td>3,111,000</td>
</tr>
<tr>
<td>University</td>
<td>1,518,904</td>
</tr>
<tr>
<td>Number of teachers/professors</td>
<td></td>
</tr>
<tr>
<td>Elementary</td>
<td>1,201,100</td>
</tr>
<tr>
<td>Secondary</td>
<td>238,700</td>
</tr>
<tr>
<td>University</td>
<td>128,029</td>
</tr>
</tbody>
</table>
4. Financing and Social Expenditure Patterns

4.1 Financing Pattern

4.1.1 Some Considerations about Public Sector Financing

Brazil’s public sector, financed through tax revenues, faced serious constraints throughout the 1980s. Gross tax revenues, which averaged around 25% of gross domestic product (GDP) in the 1970s and early 1980s, declined markedly in 1984 to 21.8%, the lowest level in recent years. In 1985 and 1986, the rate recovered to 22.5% and 24.9%, respectively. Then it declined again, dropping to 21.9% of GDP in 1988.

The reversal of the economic cycle, accompanied by an exacerbated inflationary pattern—interrupted only momentarily by the recovery of 1985 and 1986—helps explain this process. The proliferation of fiscal incentives promoted by the government also eroded the tax base and reduced the effectiveness of the incentives.

A further problem is the regressiveness of the tax structures: the individual tax burden declines markedly as income rises. This is explained, in part, by the heavy weight of indirect taxes in the composition of tax revenues. Other problems stem from loopholes in the taxation of corporate income and capital gains and of some financial transactions, all of which go against the principles of tax equity.

Another destabilizing factor produced by the taxation system in force prior to the 1988 Constitutional Reform was the weakening of the federal character of Brazil’s institutional system. The Tax Reform of 1965–67 promoted the centralization of tax collection in the hands of the federal government, which was then able to collect increased taxes from a broader economic base. Before 1968 the federal government collected half of all national revenues; during the first half of the 1980s, it collected over 60%. This was largely due to the positive performance of the income tax and the expansion of employer- and employee-withheld contributions for social programs. Centralization becomes more evident when we consider the tax resources actually available at all levels of government after the completion of constitutional transfers and tributary allocations. Comparing the average distribution of tax revenues in the 1964–68 and 1980–85 periods, we observe that the federal government’s share increased from 39% to just over 50%, the municipalities maintained their levels at 15%, and the states saw their share reduced from 46% to one-third of all available resources.

The contraction of their tax bases forced state and municipal governments to resort to deficit spending and ‘irregular’ transfers requiring political negotiation with the federal government. In addition, a growing number of local government responsibilities became centralized in the hands of the federal government. The resulting loss of financial, technical, and
political autonomy rendered state and municipal governments incapable of addressing the basic needs of their populations.

The strangulation of public sector financing by the tax system is only one of the elements of the fiscal crisis of the 1980s. Serious imbalances developed between public revenues and expenditures, evidenced by the marked decline of the public savings rate, which plummeted from a level above 6% in the early 1970s to a negative figure beginning in 1985 (see Table 5).

<table>
<thead>
<tr>
<th>Years</th>
<th>Available tax revenues</th>
<th>Consumption</th>
<th>Transfers</th>
<th>Gross fixed capital formation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social Security and Welfare</td>
<td>Internal debt service</td>
</tr>
<tr>
<td>1970–79</td>
<td>25.35</td>
<td>10.21</td>
<td>7.24</td>
<td>.48</td>
</tr>
<tr>
<td>1980</td>
<td>24.69</td>
<td>9.20</td>
<td>7.77</td>
<td>0.76</td>
</tr>
<tr>
<td>1981</td>
<td>24.65</td>
<td>9.32</td>
<td>8.22</td>
<td>1.08</td>
</tr>
<tr>
<td>1982</td>
<td>25.27</td>
<td>10.01</td>
<td>8.58</td>
<td>1.12</td>
</tr>
<tr>
<td>1983</td>
<td>25.07</td>
<td>9.66</td>
<td>8.36</td>
<td>1.61</td>
</tr>
<tr>
<td>1984</td>
<td>21.82</td>
<td>8.28</td>
<td>7.76</td>
<td>2.44</td>
</tr>
<tr>
<td>1985</td>
<td>22.53</td>
<td>9.88</td>
<td>7.24</td>
<td>3.35</td>
</tr>
<tr>
<td>1986</td>
<td>25.34</td>
<td>10.95</td>
<td>8.00</td>
<td>3.58</td>
</tr>
<tr>
<td>1987</td>
<td>23.34</td>
<td>12.16</td>
<td>7.54</td>
<td>3.14</td>
</tr>
<tr>
<td>1988</td>
<td>21.89</td>
<td>12.61</td>
<td>7.18</td>
<td>3.12</td>
</tr>
<tr>
<td>1989</td>
<td>21.91</td>
<td>14.32</td>
<td>7.50</td>
<td>6.06</td>
</tr>
</tbody>
</table>


Consolidated government includes accounts of the central government, the states, and the municipalities. It covers central and decentralized administration, including the social security system and workers' savings funds (FGTS and PIS-PASEP), the Central Bank, and public enterprises.

In the first half of the 1980s, transfers were the main factor responsible for the rise in government spending: service on the international debt, discounted by monetary adjustment, rose from just under 0.5% in the 1970s to almost 3.6% of GDP in 1986; transfers of social security and welfare programs rose above 8% of GDP from 1981 to 1983 and then declined slightly. In 1980, expenditures on subsidies were more than double the 1970–79 average, but the rate steadily declined thereafter. In the latter half of the decade continued increases in internal debt service and notable growth in consumption aggravated the fiscal crisis.
The progressive reduction of public savings, however, was not accompanied by an equal reduction in the rate of government investment. Although the rate declined somewhat in the early 1980s, in 1984 it began to rise, reaching 3.15% of GDP in 1987, a level not registered since 1978. This rise in investment further elevated the level of government indebtedness.

It is important to note that this aggregate information obscures significant differences among the three levels of government. The fiscal imbalance was most acute in the consolidated current account of the federal public administration—in the internal debt service and in expenses for personnel and obligations. For example, while the federal government registered increasingly negative public savings rates since 1984, the states and municipalities maintained positive although insignificant rates throughout the period (except in 1988 at the state level).

### 4.1.2 Financing Social Policies

The financing of Brazilian social policies is characterized by the predominance of funds linked to specific sectors or clienteles through their designated social contributions. One estimate of social spending for 1986 indicates that social contributions covered at least 35% of total consolidated spending. At the federal level, these funds covered an average of 70% of all social spending between 1980 and 1988.

Until 1964, contributions to social security represented the only important example of a social contribution tax. From the mid-1970s until the early 1980s, however, a varied group of additional parafiscal social contributions were created, representing an amount almost equal to that constituted by federal tax revenues. For example, in 1988 social contributions represented close to 6.32% of GDP while federal taxes equaled 8.7%. The largest contribution, in volume of resources, was from social security payroll deductions. Between 1984 and 1988 these resources on average represented close to 4.6% of GDP—higher than revenues from income tax, the principal federal tax (see Table 6).

The various social contributions are similar to taxes in that they are compulsory and are levied indirectly.\(^\text{10}\). Nevertheless, the contributions are not submitted to the same rules that govern the tax system, such as the principle of annual certification, which prohibits the addition of a further tax in the same fiscal period in which a first tax was levied. Additionally, the linkage of revenues to expenditures—a characteristic of social contributions, whose revenues are allocated to particular clienteles or specific social sectors—is explicitly prohibited by the Constitution in the chapter on federal budgets.\(^\text{11}\)

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\(^\text{10}\) For a detailed analysis of social funds, see Azeredo 1987.

of other taxes created opportunities for developing additional contributions, which was exactly what the government did beginning in the 1970s.

<table>
<thead>
<tr>
<th>TABLE 6</th>
<th>Gross Tax Burden by Levels of Government and Principle Tax Sources Brazil, 1984–88 as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Federal government(^a)</td>
<td>16.07</td>
</tr>
<tr>
<td>Principle tax fiscal budget</td>
<td>8.61</td>
</tr>
<tr>
<td>Income tax</td>
<td>4.03</td>
</tr>
<tr>
<td>Industrial products tax</td>
<td>1.25</td>
</tr>
<tr>
<td>Financial operations tax</td>
<td>0.78</td>
</tr>
<tr>
<td>Others</td>
<td>2.55</td>
</tr>
<tr>
<td>Social contributions</td>
<td>7.03</td>
</tr>
<tr>
<td>Social security(^b) (payroll)</td>
<td>4.70</td>
</tr>
<tr>
<td>FGTS (payroll)</td>
<td>0.99</td>
</tr>
<tr>
<td>FINSOCIAL (gross earnings)</td>
<td>0.52</td>
</tr>
<tr>
<td>PIS-PASEP (gross earnings)</td>
<td>0.82</td>
</tr>
<tr>
<td>Other taxes</td>
<td>0.43</td>
</tr>
<tr>
<td>2. States</td>
<td>5.17</td>
</tr>
<tr>
<td>Commodities circulation tax</td>
<td>4.63</td>
</tr>
<tr>
<td>Other taxes</td>
<td>0.53</td>
</tr>
<tr>
<td>3. Municipalities</td>
<td>0.58</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>21.82</td>
</tr>
</tbody>
</table>

Source: Afonso and Villela 1990. Based on: Contas Nacionais, FGV, and FIBGE (GDP and tax revenues by level of government, until 1989); FGV/CEF; FIBGE/OCNA; General Federal Balance; MPAS/DATAPREV; BNH/CEF disaggregated federal tax revenues; NEPP/CONFAC (commodities and service circulation taxes).

\(^a\) Tax revenues and contribution revenues found in the General Federal Balance, excluding social contributions

\(^b\) Paid by employees and employers of INPS

The principal types of social contribution existing prior to the 1988 Constitution can be classified in three categories (Chart 4). First are those that are linked to an unwritten social contract through which the state guarantees some benefits to workers, as is the case of social security. In this category, salaried workers contribute one-third of the cost of the total system; the remaining two-thirds are paid by companies based on payroll percentages.

The second group consists of workers' asset funds, administered for them by the state. Private companies make contributions calculated either on the basis of their workers' earnings
<table>
<thead>
<tr>
<th>CHART 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of Primary Social Contributions</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1. Social security</th>
<th>Destination of funds</th>
<th>Contributor</th>
<th>Basis of calculation</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>To IAPAS for allocation through SINPAS to social security, welfare benefits, and medical aid</td>
<td>Employee and Employer</td>
<td>Contributor's salary</td>
<td>Employee: 8.5% to 3 m.s.(^a) 8.75% from 3 to 5 m.s. 9.0% 5–10 m.s. 9.5% 10–15 m.s. 10.0% above 15 m.s 10.0% employer 6.0% civil servant 19.2% self-employed</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Workers' savings funds</th>
<th>FGTS</th>
<th>To the BNH for spending on housing programs</th>
<th>Employer, private sector</th>
<th>Worker's earnings</th>
<th>8.0%</th>
</tr>
</thead>
</table>

| PIS | To the National Economic Development Bank (BNDE) for financing activities in various areas of the national economy | Employer, private sector | Gross revenue of enterprises business income tax | Gross revenue of enterprises: 0.75% Reduction of income tax owed: 5.0% |

| PASEP | To the BNDE for financing activities in various areas of the national economy | Public sector at all levels: federal government, states, municipalities, decentralized public enterprises, mixed economy societies, and foundations | Current revenue of federal government, states, and municipalities; budgetary revenues of decentralized public enterprises, mixed economy societies, and foundations | Federal government, states, and municipalities: 2.0% decentralized public enterprises, public businesses, mixed economy societies, and foundations: 0.8% |

| 3. Other funds | FINSOCIAL | Assistance programs in housing, health, education, and nutrition | Private and public businesses | Exclusively service-sector businesses: 5.0% Commercial, financial, and insurance businesses: 0.5% |

| Education salary | One-third to the National Education Development Fund (FNDE) and two-thirds for the Secretaries of Education of the states territories, and Federal District, both for priority application to elementary teaching | Employers and businesses linked to social security, rural businesses and producers | Payroll and honoraria defined in social legislation and commercial value of rural products of agricultural businesses | Businesses in general: 2.5% Rural producers: 0.8% |

| Social security tax | Federal government | Lottery ticket purchasers, tourist enterprises, and automobile fuel consumers | Gross revenue from lotteries and horse bets. Post-refining price of gasoline type “A.” | Federal Lottery Tickets Sporting lottery: 10.0% Numbers lottery: 5.0% Horse racing: 3.0% Automobile fuels: 6.0% |

\(^a\) Minimum Salary
(FGTS) or on the entrepreneurs' gross revenues (PIS). PASEP is made up of contributions from all levels of the public sector employers.

The third category includes contributions that are identified with fiscal revenues directly attached to certain social programs. The main examples of this group are FINSOCIAL and the Education Salary contribution.

The realm of social contributions grew under the progressive expansion of the social protection system, particularly from the mid-1960s to the early 1970s. In 1964, the Education Salary contribution was created to comply with the constitutional mandate (1964) that companies provide free primary education to their workers and workers' children between age seven and fourteen. In 1966, the FGTS was created to provide guarantees to workers in the formal job market. PIS and PASEP were created in 1970 and 1971, respectively, to ensure workers the right to participate in the life and development of the companies that employed them, as provided for in the Brazilian Constitution.

Thus, by the early 1970s, the system of social contributions that would remain in effect until the late 1980s was almost completely formed. The exception was FINSOCIAL, created in 1982 to support social investments in health, public housing, education, food, and aid for small-scale farmers. The creation of some of these funds was linked closely to important changes in public policy financing patterns in the late 1960s. The four main institutional reforms accomplished in this period—administrative, tax, banking, and social security—modernized the structure of the state to meet the requirements of the development process. At that moment, "two important conditions had to be met: the expansion of the investment program's financing capabilities and the concentration of those resources in large governmental institutions, responsible for sectoral politics of infrastructure expansion necessary for a qualitative balance in the process of industrialization" (Rezende 1985).

This is how the creation of FGTS and PIS-PASEP, despite the apparent advance in terms of the social protection system, was severely conditioned by economic policy. At the same time that FGTS created a workers' compensation fund for cases of dismissal, it permitted the resources collected to be channeled to the BNH, with the justification of implementing a housing policy aimed at the most needy sectors of the population. PIS-PASEP, which could have facilitated the formation of an individual worker's savings fund, primarily represented the accumulation of a large volume of resources for the short-term financing of investment programs under the National Economic Development Bank (Banco Nacional de Desenvolvimento Econômico or BNDE).

One characteristic of social contributions that bears emphasizing is that, with the exceptions of FINSOCIAL and the Education Salary contribution, most of these revenues were not included in the Federal Budget (Orçamento da União). Social security contributions, for example, were part of a separate budget within the Budget of State-Owned Companies
(Orçamento das Empresas Estatais). Beginning in 1988 the budget for FPAS was included under the Federal Budget, but only as an appendix.\textsuperscript{12} The workers' savings funds (FGTS and PISPASEP) were never included in a government budget.

Linking the majority of social contributions to payroll deductions causes a high level of instability of government revenues, given the oscillations in economic activity. Periods of recession, unemployment, and wage freezes shrink workers' payrolls, immediately affecting the levels of fund contributions. Thus, precisely when social demands rise because of the economic crisis, the government's capacity to intervene is limited by its inability to increase social spending. In the case of FGTS, whose contributions are salary based, the instability of collection due to economic cycles is compounded in recessionary periods by a rise in compensation payments for dismissed workers. This dual pressure causes extreme instability in FGTS revenues available for housing programs.

It is important to note that, in addition to the predominance of resources appropriated from social contribution funds, the financing of social policies counts on a significant linkage of tax revenues for the area of education. The 1983 Constitutional Amendment No. 24, known as the Calmon Amendment,\textsuperscript{13} established that the federal government must allocate at least 13% and the states, the Federal District, and the municipalities at least 25% of their tax revenues to educational development.

4.2 Social Spending

4.2.1 Consolidated Social Spending

In Brazil, there is no systematic accounting of consolidated public social spending for the three levels of government. The difficulties involved are numerous, the major challenge being the significant volume of inter- and intragovernmental transfers. Although these transactions can be identified at the federal level, this is not always possible at the state and municipal levels. Thus, it is difficult to totally eliminate duplicate accounting of resources, which greatly hinders any attempt to estimate consolidated social spending.

Nevertheless, some attempts have been made, notably a report by the World Bank (1988b), which presents consolidated social spending for 1986. Although that year was extremely atypical, due to the momentary economic recovery and control of inflation (which may have resulted in a spending volume higher than the tendency registered for the rest of the

\textsuperscript{12} The 1988 Constitution created the Social Protection Budget (Orçamento da Seguridade Social) to encompass the majority of the social contribution funds. This issue will be analyzed later.

\textsuperscript{13} This amendment was not enforced until 1985, by Law no. 7,348, and the resulting financial impact was not felt until 1986.
decade), these data allow us to evaluate the structure of social spending according to principle sectors, the weight of each level of government, and their financial basis.

According to this report, social spending by the public sector totaled US $47,202 million in 1986, equivalent to 18% of GDP and representing a per capita expenditure of $400. Roughly half of this spending occurred at the federal level and half at the state and municipal level. The main expenditure, social security, represented 43% of the total. The second largest expenditure was for education and culture, representing 23% of total spending. Two other significant spending areas were housing and urban development (17%) and health care (13%). The remaining areas included water and sanitation (2.4%), food and nutrition (1.4%), urban transportation (1.2%), and employment (0.4%) (Table 7).

At the federal level, social security spending represented more than 50% of the total. Spending on health care occupied a secondary position at 18%, followed closely by spending on education and culture, representing 16%. Expenditures for housing and urban development, water and sanitation, food and nutrition, and employment each represented less than 4% of the federal government's social spending.

At the state and local levels social security spending was on a par with that for education and culture and housing and urban development, each accounting for close to 30% of total spending. Like social security, health care expenditures at these levels were proportionately lower than at the federal level. Urban transportation represented 2.5% and water and sanitation 2% of total spending.

<table>
<thead>
<tr>
<th>Table 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Spending by Program at the Federal and State and Municipal Levels</td>
</tr>
<tr>
<td>Brazil, 1986 (US million $)</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Program</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Social security</td>
</tr>
<tr>
<td>Education and culture</td>
</tr>
<tr>
<td>Housing and urban development</td>
</tr>
<tr>
<td>Health care</td>
</tr>
<tr>
<td>Water and sanitation</td>
</tr>
<tr>
<td>Food and nutrition</td>
</tr>
<tr>
<td>Urban transportation</td>
</tr>
<tr>
<td>Employment</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

A more detailed assessment of social expenditures by state and local governments shows that state expenditures accounted for close to 30% of their combined spending, representing close to 15% of the total spending at all three levels of government.\textsuperscript{14} Thus, municipal spending accounted for 70% of all social expenditures by subnational governments and 35% of the consolidated total. Spending on education was equivalent and significant at both the state and municipal levels. Although municipal governments spent a large proportion of their budgets on housing and urban development, state spending in this area was insignificant. In contrast, health care represented close to 12% of state expenditures, but only 6% for municipalities. States spent 42% of their social expenditures on employment, social security, and welfare, compared to 17% on the part of municipalities.

Table 8 enables us to evaluate the resource structure that maintains social spending. Although some resources are not discriminated here, we observe that in 1986 federal resources represented just over 50% of all revenues. Of this group, social contributions provided for at least 34% of all social spending, and the social security contribution alone represented 28% of all resources. State revenues represented 21.8% and municipal resources 6.6% of the total.

\begin{table}[h]
\centering
\begin{tabular}{lrr}
\hline
\textbf{Sources of revenues} & \textbf{US billion $} & \textbf{\% of total spending} \\
\hline
Social contributions & & \\
Social security contribution & 13.4 & 28.4 \\
FGTS & 1.1 & 2.3 \\
Education salary & 0.05 & 0.1 \\
FINSOCIAL & 1.2 & 2.5 \\
Social development support fund & 0.1 & 0.2 \\
Total social contributions & 15.85 & 33.6 \\
Other federal revenues & 9.2 & 19.5 \\
Tax on aggregate value (Commodities Circulation Tax/States) & 10.3 & 21.8 \\
Local taxes (urban property; service) & 3.1 & 6.6 \\
Other revenues \textsuperscript{a} & 8.7 & 18.4 \\
Overall total & 47.2 & 100.0 \\
\hline
\end{tabular}
\caption{Structure of Revenues for Public Spending on Social Programs \textit{Brazil, 1986}}
\end{table}

Source: World Bank (1988b)

\textsuperscript{a} Includes PASEP, other social funds, and loans.

These data confirm one frequently noted aspect of the financing pattern of social spending—excessive centralization in the hands of the federal government. Subnational governments must depend heavily on federal transfers to meet their expenditures for social programs. These governments were responsible for close to half of all social spending in 1986, \textsuperscript{14} World Bank estimates for 1984.
but their own resources represented only 28% of all resources. Municipal governments, responsible for 35% of all social spending, generated only 6.6% of available resources, making them dependent on both federal and state resources and transfers.

4.2.2 Federal Social Spending

Evaluating federal social spending has always been a difficult task. Social expenditures are not included in a single budget nor are they accounted for on a single balance sheet. In addition to the programs under the sectoral ministries within the fiscal budget, significant expenditures occur in the budget of FPAS and, more recently, in the social protection budget. Other sources, such as FGTS and the Social Development Support Fund (Fundo de Apoio de Desenvolvimento Social or FAS), are not counted under any budget. Furthermore, the very consolidation of social programs within the fiscal budget is in itself an onerous task, due to the form in which they are registered.

Since 1986, however, a tentative and pioneering plan, called the Consolidated Social Account (Conta Social Consolidada), has been in development under the Economic and Administrative Planning Institute (Instituto de Planejamento Econômico e Administrativo or IPEA). It encompasses resources from the treasury, FINSOCIAL (those generated by BNDE and those allocated to the sectoral ministries), FPAS, FGTS, and FAS. The result of this measure is highly representative of federal social spending.¹⁵

The first published Consolidated Social Account was for the 1980–1986 period. A more recent version incorporated data from 1987 to 1989, comprising a historically significant series spanning the entire decade. Before analyzing the data, however, we must point out that, due to data gathering problems in 1989, it is difficult to compare the 1989 data with those from previous years. Although we include the 1989 data in the tables, we limit our analyses and conclusions to the 1980–1988 period unless the 1989 data are compatible.

If we compare the evolution of GDP and social spending during the 1980s, it is clear that both change in the same direction, with little or no compensatory, anticyclical effect from social spending. In 1981, federal social spending represented 10% of GDP. Following the 1982 economic crisis, this expenditure declined significantly, falling to 7.9% of GDP in 1984. Thereafter, the participation of federal social spending in GDP rose again, and by the end of the decade, it recovered a level similar to that at the beginning of the period.

The performances of total and per capita social spending throughout the decade were similar, although the cycles presented by per capita spending were more accentuated. In other words, growth rates in per capita spending always lagged behind the rates for total spending, and

¹⁵ For a more detailed account of the methodology adopted by IPEA, see Viana et al. 1987.
| 5. FINSOCIAL  
(iv) created by decree-law 1940 of 25 May 1982 | Financing of social protection  
(v) Art. 56 of the act of temporary constitutional dispositions, Federal Constitution of 1988 | Private and public businesses | Gross monthly income of trading companies; operational and nonoperational income of financial institutions; income tax owed by service businesses | Exclusively service sector businesses: 5.0%  
trade, finance, and insurance companies: 2.0%  
(iv)  
(v) |
|---|---|---|---|---|
| 6. FGTS  
(vi) created by law 5107 of 13 Dec., 1966, reformulated by law 8036 of 11 May 1990 | Formation of individual workers' savings funds for use in case of dismissal or purchase of a private home; low-income housing; sanitation and urban infrastructure through the Federal Economic Bank | Employer | Worker's income | 8.0%  
(vi) |
| 7. Education Salary | National Education Development Fund (FNDE): 1/3 to state education secretaries, 2/3 to territories and Federal District; all prioritized for primary instruction | Employer and employees linked with social security; rural businesses and producers | Payroll and honoraria defined in social security legislation; commercial value of rural agricultural products | Business: 25%  
Rural producers: 0.8% |

Social protection has been regulated in a fragmented fashion. In the second half of 1990 two health care related laws were passed. But many crucial points regarding financing, especially those establishing criteria for redistributing resources to states and municipalities, remain uncertain or undefined. The law concerning the overall organization and financing of social protection and the law regarding the new social security benefit plan were enacted in July 1991, almost three years after the promulgation of the Constitution.

Welfare (assistance to low-income groups) remains the only unregulated area within social protection. In 1990, the Congress approved an Organic Law for this sector, which the executive branch vetoed in its entirety. New legislation—the Organic Law of Social Welfare Programs (Lei Orgânica de Assistência Social or LOAS)—was approved in December 1993 but did not take effect until October 1994.

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31 Law no. 8,080 of 19 September 1990 and Law no. 8,142 of 28 December 1990.
32 Law no. 8,212 and Law no. 8,213, both passed on 24 July 1991.
### CHART 5

**Synopsis of Primary Social Contributions**

<table>
<thead>
<tr>
<th>Destination of Funds</th>
<th>Contributor</th>
<th>Basis of Calculation</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social Security (Law 7787, July 1989)</td>
<td>To National Social Insurance Institute (INSS/MPAS) for allocation to health, social security, and welfare.</td>
<td>Employee and employer</td>
<td>Insured employee: 8.0%: to NCz$360.00 9%: 360.01 to 600.00 10%: 600.01 to 1,200. Insured worker, self-employed, insured employers, and individual contributors: 10%: up to NCz$360 20%: above NCz$360</td>
</tr>
<tr>
<td>2. PIS (created by the complementary law of 7 Sept. 1970)</td>
<td>Financing of unemployment insurance program, the annual salary bonus, and BNDE for economic development programs</td>
<td>Private business</td>
<td>Public decentralized entities and entities created by federal law for regulation of self-employed professionals: 0.65% of budgetary revenue Cooperatives, public and private foundations, condominiums, and other nonprofit entities: 1% over total of payroll of employees Other legal entities: 0.65% of gross operating revenue/income (ii)</td>
</tr>
<tr>
<td>Law no. 2445 of 29 June 1988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law no. 2449 of 21 July 1988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. PASEP (created by the complementary law of 8 Dec. 1970)</td>
<td>Financing of unemployment insurance program and of bonuses</td>
<td>Federal government, states, and municipalities; public decentralized entities</td>
<td>(ii) Same as above</td>
</tr>
<tr>
<td>(iii) Law no. 7689, 15 Dec. 1988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law no. 8114 12 Dec. 1990</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Contribution based on net income (iii) Law no. 7689, 15 Dec. 1988</td>
<td>Financing of social protection</td>
<td>Legal entities residing in the country</td>
<td>Gross income 8% for general legal entities and 15% for financial institutions</td>
</tr>
<tr>
<td>(iii) Law no. 8114 12 Dec. 1990</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
principles of legality, nonretroactivity and, with the exception of contributions to finance social protection, they are assessed annually.

The establishment of the social protection budget is another important innovation in the 1988 Constitution. This budget may become an instrument for integrating the diverse areas that make up social protection; its elaboration may provide the opportunity for a joint discussion of the system’s goals and priorities. However, the principle merit of this measure is the fact that almost all social contributions will be part of one budget, affording greater visibility and control of public spending on social sectors.\footnote{The social protection budget encompasses all social contributions except the Education Salary, which is included in the fiscal budget, and the FGTS, which is not part of any budget.}

Taken together, the constitutional norms regarding social contributions significantly alter the allocation of resources. With the exception of FGTS and the Education Salary, all of the various social contributions are now tied to the social protection system, and integrated into the same budget. Thus health care, social security, and welfare, while continuing to receive the social security contributions from payroll deductions, will also receive new revenue from profits and from PIS-PASEP, FINSOCIAL, and FAS resources (Chart 5).

Nevertheless, a contradiction exists in the constitutional text between the stated principle of decentralization of health care and welfare programs and the financing of social protection, which is totally centralized in the hands of the federal government. No mechanism is outlined for transferring resources to the states and municipalities to ensure the intended decentralization.

The constitutional reform initiated a process of change, to be completed by the passage of complementary and ordinary legislation. This process has been unduly prolonged. By October 1990, two years after the new Constitution went into effect, practically nothing had been regulated. One exception was the new unemployment insurance program, instituted in January 1990 and funded with PIS-PASEP resources. This program represents an enormous advance over the previous one, with increased coverage (now close to 43% of all unemployed) and benefit values that guarantee low-income workers a supplement compatible with their last salary.
decentralization, however, was not accompanied by a compatible distribution of responsibilities among the three levels of government. The imbalance between responsibilities and reduced revenue at the federal level portends serious problems for the administration of public finances, as we shall discuss later.

Education was awarded an increase in its financing at the federal level; the mandatory minimum level of funding increased from 13% to 18% of tax revenues. The impact of this increase, however, should be reduced by the financial decentralization promoted by the tax reform. Therefore, an increase in educational spending at the state and municipal levels is expected, although the percentage of earmarked financing at these levels of government has been maintained at 25%. Another source of guaranteed resources for education was preserved in the constitutional text, coming from the social contribution for the Education Salary. Two-thirds of these resources are allocated to the Secretaries of Education at state, territory, or Federal District levels, representing a significant portion of spending on primary and secondary education in these governments. The remaining one-third of the collected revenue stays with the federal government, in the National Education Development Fund (Fundo Nacional de Desenvolvimento da Educação or FNDE).

The most significant constitutional changes in social policy financing are in the chapter on social protection. The major share of social contributions are located here, now linked to expenditures for health care, social security, and welfare measures. The new financing structure presents important innovations, compared with that of the previous social security system, SÍNPAR, which was based fundamentally on payroll contributions.

The specification of gross income and profits (faturamento e lucro), in addition to payroll, as bases for employer contribution to social protection introduced a diversification of financing sources. For many years this measure had been pointed out as fundamental in reducing the dependency on payroll resources and the consequent vulnerability of social security payments to economic cycles.

In addition, the resources of two important funds, FINSOCIAL and PIS-PASEP, were directed toward social protection expenditures, together with lottery revenues, which constitute the base of FAS. FINSOCIAL and lottery resources significantly reinforce the financing of social protection policies; FINSOCIAL is currently the third largest source of federal revenues. PIS-PASEP, linked specifically to the payment of unemployment insurance and bonus salaries to workers who earn less than two minimum salaries, opens the possibility of instituting a genuine unemployment protection program.

Social contributions were not incorporated into the chapter of the constitution that deals with general taxes. However, newly created contributions will be subject to the same rules as those established for taxes: they must be defined by a complementary law and are subject to the
values were also altered. By defining a minimum level for all benefits and by changing the criteria for retirement and benefit calculation, values were effectively increased and guaranteed. The new constitutional articles concerning social security mixed two criteria. On one hand, the establishment of a monthly income for the elderly and disabled and the stipulation that social protection would be financed, directly or indirectly, by society as a whole, indicate the goal of building a collective insurance against social risks. On the other hand, the new articles still maintained the idea of individual insurance, directly linking social security benefits to contributions. Finally, in reference to minimum income, the social protection design opens the possibility for the future introduction of a ‘citizenship salary’ like that coined by Daim (1982, 223).

The 1988 Constitution considerably extended social rights in the area of education, thus increasing the state’s responsibility. It again reaffirmed the right to basic education. With a goal of universalization, the Temporary Clauses of the Constitution (Disposições Transitórias da Constituição) allow for the allocation of 50% of public resources for education to primary and secondary education and to the task of eradicating illiteracy within ten years.

For the first time, a Brazilian Constitution dedicates a chapter to urban policy. In addition, various articles affecting urban issues are found in numerous other areas of the text. The federal government is charged with the task of defining the guidelines for urban development, including housing, basic sanitation, and urban transportation. Implementation of urban development policies is placed in the hands of the municipalities. The details of the constitutional chapter include the mandatory establishment of a master urban plan and cover subjects such as the social function of property, legal grounds for eviction, and instruments for a policy to utilize vacant urban spaces. They also make provision for the participation of the population in local planning.

The constitutional reform produced a variety of changes with implications for the issue of public sector financing, particularly the financing of social policies. It is important to emphasize that the tax reform profoundly altered the structure of centralized financing by the federal government, which had characterized public sector financing since the late 1960s. A significant part of the change in tax revenue distribution is due to the reapportioning of federal taxes allocated to states and municipalities. According to the new rules, subnational governments automatically receive nearly half (instead of one-third) of the revenues from the two primary federal taxes (income tax and the industrial products tax).

The structure of public revenue distribution for 1993 entailed a loss in federal resources of about 1% of GDP, or close to one-fourth of total tax revenues. Meanwhile, the tax revenues available to states and municipalities increased by nearly 13% and 30%, respectively. 29 This tax

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29 See Afonso, Rezende, and Varsano (1989). For the federal government, the impact of reform was concentrated in 1989, the year the new tax system went into effect; it experienced a reduction of almost 12% in its available tax resources.
Adopting the goal of comprehensive social protection represents one of the most important advances in the area of social rights in the new Constitution. The definitions and operations of social security, health care, and welfare were all amplified on the basis of this concept, according to the following principles and objectives: the aim of universal coverage; uniformity and equivalence of benefits and services; application of selectivity criteria to distribute benefits and services to those most in need; irreducibility of benefit values; equitable participation in and diversity of the financing base; community participation, especially by workers, business people, and retirees; and democratic and decentralized administration.

In comparison with the past, the principle of universal coverage and service is seen most distinctly in the area of health care. Universal and equal access is now legally available to the entire population. The state is given the primarily responsibility of rendering services, though the possibility of private initiative is not excluded. A complementary role is reserved for private health services, with preference given to philanthropic institutions and nonprofit organizations. The new organizational structure is defined as an integrated, decentralized, regionalized, and hierarchical network, comprising a unique system at each level of government. In addition to decentralization, emphasis is placed on an integrated approach to health care with priority given to preventive activities and community participation.

The 1988 Constitution outlines a marked advance in social welfare. Defined as a right for all citizens regardless of any type of contributions record, welfare programs are conceived in the most contemporary way to guarantee basic needs benefits (in cash or kind) to those whose incomes fall below a certain level. Substantively, according to the 1988 Constitution social welfare provides for the protection of families, maternity, infancy, and old age; help for needy children and adolescents; assistance in finding employment; and training and rehabilitation of physically handicapped people. In terms of income, a monthly benefit of one minimum salary is guaranteed to the elderly who do not have the means to support themselves and to seriously disabled people.28 The Constitution prescribes that social assistance programs be administered at the municipal level, and that citizens participate in the formulation and implementation of policies.

In the case of social security, constitutional measures to equalize the benefits to urban and rural workers undoubtedly constitute the most important step in correcting the system's previous inequities. In addition to renewing coverage of previously considered risks, modifications were introduced to permit the utilization of selectivity criteria for greater protection of low-income individuals and their dependents (family bonus). Protection was reinforced for maternity (maternity leave extended to 120 days) and paternity leave was introduced. Benefit

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28 The social security system, in effect until the regulation of the new benefits plan, conceded half a minimum salary to people over 70 years and to invalids who had contributed to the system for twelve months, consecutive or nonconsecutive.
complexity as various lobbies organized around different sectoral policies and confronted each other in the Constitutional Congress. In the end, the Constitutional Congress processed most of the transition agenda, which expanded the realm of social rights, restructured labor relations, instituted a new system of decentralized governmental social intervention, and decided on important alterations in the tax structure and in the attributes and responsibilities of the three spheres of government. The Constitution of 1988 expressed, at least formally, the victory of the demands of the opposition.

Obviously, the actual implementation of constitutional provisions in the social arena is a very complex matter. As we will see in the next section, the 1988 Constitution reinforced the principles of a democratic social and political order, but it deferred the impasses and dilemmas inherent in putting the new social rights into practice to a later time when complementary and regulatory laws would be generated by the National Congress. In addition to the difficulties in reaching agreement on conflictive and exclusionary interests in the executive-legislative relationship—a process aggravated by the chronic weakness of the Brazilian party system—enacting new social measures in Brazil faces at least two major obstacles: the resolution of the dramatically worsened economic crisis of the 1990s, and the recovery of financial and administrative capabilities by a state that has been in perpetual crisis during recent years.

7. Constitutional Reform and New Structural Principles of the System

Undeniably, the Brazilian Constitution promulgated in October 1988 represented a significant advance with respect to the model followed by social policies until then. The constitutional modifications, at least as presented prior to the greater detail to be added by complementary legislation, appeared to reflect a movement from the meritocratic-particularistic model towards an institutional-redistributive model. That is, the modifications appear to have moved towards a more universal and egalitarian social policy orientation in Brazil.27

Considered together, the innovations suggest an intensification of the redistributive character of social policies and greater public responsibility in their regulation, formulation, and operation. The Constitution provides for the expansion of social rights and emphasizes the concept of comprehensive social protection. Proposed reforms include universalization of access and expansion of coverage, the re-enactment and redefinition of minimum levels for social benefits, weakening the structural link between benefits and contributions, and a greater commitment from the state and society to financing the entire system.

27 For a detailed analysis of constitutional changes affecting social policy, see Azeredo and Lobo (1991).
In a context of economic recession and intense popular mobilization, state governors, elected in 1982, confronted numerous demands. With diminishing federal resources and relative decision-making paralysis in the area of public policies, the new governors enacted programs that indicated a search for alternative directions. They developed low-cost programs, emphasizing decentralized administration in all social areas. They stimulated popular participation in the provision of goods and social services (community projects, mutual aid, etc.). They sought to integrate programs designed for specific clienteles (children, slum dwellers, the unemployed) and gave incentives to municipal governments to act as partners in implementing social programs.

With these experiences in states and municipalities, the emphasis on participation and decentralization increased its presence in the overall democratization process and came to occupy an important position in the transition agenda. In the context of democratization, growth alongside income redistribution and social policy reforms would become viable, from a perspective that assumed the preeminence of the state in the production of goods and services. Roughly speaking, the opposition bet on a strategy that combined development, employment expansion, growth of salaries, and universal and more effective social policies.

In a climate of intense debate over social policy reforms, the New Republic (Nova República), which assumed power in 1985, outlined a program to:

—restructure the system of financing social spending, with emphasis on establishing mechanisms capable of halting the negative effects of economic cyclical fluctuations on revenues;
—reorganize the administrative apparatus that delivers social services, with the intention of increasing its flexibility and correcting its functional distortions;
—promote a broad debate to define a new profile of social protection, one that would be based on more equitable criteria and would correspond to the demands of democratization—more decentralized decision-making and greater participation in the definition, administration, and control of programs.

An agenda of this magnitude would obviously require committed leadership with the ability to give direction and meaning to state actions. However, whether because of the contradictory forces within the Democratic Alliance (Aliança Democrática) or because of the breadth of accord around which this coalition was organized, in fact the New Republic government supported only emergency programs to combat poverty. And even these were later reduced to assistance measures implemented for narrow clientelistic, political ends. The only exception was the implementation of SUDS in 1987, which demonstrated the success of interests organized in the Sanitation Reform Commission (Comissão de Reforma Sanitária). This program also received support from the state governors, who benefited greatly from the new model of health care.

The debate about structural reform of the social protection model was never extinguished, however, and continued through other channels. The discussion gained
expansion of autonomous professionals initiated organizing patterns that expressed new forms of sociopolitical involvement. A state-employed middle class emerged, composed of professors, physicians, technicians, and researchers. Distinct from the state techno-bureaucrats, they were greatly affected by the crisis in the early 1980s. Middle-class activists became increasingly politicized. In addition to salary and employment-related demands, they called for expanded political and social rights.

In addition, the explosion of social movements, stimulated in large part by the Catholic Church, manifested itself in diverse ways. People within the popular sectors and the new middle class alike joined sporadic movements and more organized neighborhood groups around demands for urban services and collective goods. The very expansion of social policies, as we have pointed out, engendered new public groups and clienteles that tended to organize themselves as collective actors, for example, the Association of BNH Borrowers, Social Security Pensioners and Retirees (Associação de Mutuários do BNH, Pensionistas e Aposentados da Previdência Social), and patrons of public daycare centers.

In large part, these movements expressed the formation of new collective identities as they confronted the authoritarian regime and the demand to democratize social relations. They also revealed a disbelief in the ability of the traditional mechanisms of representation to achieve policy changes. They all share a strong tendency to define demands for provision of goods and services by the state.

Within the sphere of party politics, the opposition forces' discussion of alternatives to conservative policies began with the premise that a major hiatus had been caused by the accelerated process of economic development and by the existence of enormous social disparities and extremely low levels of well-being. The debate correctly identified the origins of these disparities in the perverse concentration of wealth resulting from the authoritarian regime's economic model and from some social policies that were distorted, ineffective, and fragmented. Various party programs demonstrate the consensus that this diagnosis gained in opposition parties. The banner 'growth, income redistribution, and greater social justice' appeared as one of the key points coalescing the opposition forces in the remarkable process of mobilization around the Direct Elections Now! (Diretas Já) campaign.

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24 According to Santos (1986), 60% of professional and technical associations were created after 1964; the number of scientific associations practically doubled between 1975 and 1985.
25 Various studies analyze movements organized around sectoral demands (health care, daycare, housing, transportation) and their growing importance in the agenda of public power, especially beginning with the 1982 direct elections for state governors. See R. Cardoso (1983); Jacobi (1989); Boschi (1985).
26 Under the slogan 'Diretas Já!' intense popular mobilization was promoted in 1984, led by opposition parties (PMDB, PT, PDT), demanding direct elections for President of the Republic. The campaign's failure notwithstanding, it expressed the population's heightened expectations for the urgent return of democracy.
Part II
The Reform Agenda of the 1980s

6. Political and Social Transformations and the Transition Agenda

The crisis of the welfare state’s conservative model, simultaneously placed in check by increased demands for social justice stemming from the process of democratization and by the intensity of the economic crisis in the early 1980s, fueled the debate among Brazil’s opposition regarding the ‘redemption of the social debt’ as a fundamental dimension of democratic construction.

Among the most salient of the perverse effects wrought by the authoritarian regime’s economic development model is the stark contrast between pervasive poverty—and consequently, of the destitute and politically unorganized—and the rise of new collective actors, better organized and oriented by new forms of political action. The emergence of new associative groups and parties, the revitalization of electoral competition, and the proliferation of voluntary associations significantly influenced the democratization process and the political debate about the restructuring of social policies.

In the labor sphere, the union struggle pressed the issue of salaries through strikes and negotiations. Politically, it sought to build a new unionism that would break with the populist tradition and move beyond the disorganization of the labor movement resulting from the authoritarian period. However, workers organizations exercised little influence in the debates surrounding the social policy reforms. In 1983, the creation of two principal union federations, the Central Workers Union (Central Única dos Trabalhadores or CUT) and the General Workers Union (Central Geral dos Trabalhadores or CGT), increased the scope of union action.23 The CUT focused primarily on agrarian reform and on the external debt, although generic demands such as “free public education” and “health care for all” were also voiced. But rather than constituting demands directed at the state, these proposals seem to point at formulating a prostatist position against the neoliberal antistatist position of the business sector. An example of this was the absence of social policy themes in the Sarney government’s various attempts to promote a ‘social pact.’ This nonetheless became a growing concern; the CUT created a Social Policy Secretary position in its September 1988 Congress.

The increase in new associations and social movements helps explain the emphasis on social policies in the transition agenda. The revitalization of public sector unionism and the

23 This point is based on research developed by Noronha (1990).
employment, salary levels, and income distribution and, consequently, from other state policies and unyielding structural constraints. In this sense, the 1980s have been rich in interesting but painful lessons. Recessionary adjustments, which lowered salary and employment levels in addition to the intolerable social costs they produced, raised the level and volume of social demands. These same problems eroded public sector financing, contributing to the severe deterioration in the quality of social services. The experience of the Cruzado Plan of 1986 is also noteworthy: by elevating the minimum salary a few percentage points and thus permitting a rise in the lowest levels of income, the plan led to a 30% increase in food and medicine consumption, indicating an appalling degree of demand repressed by low incomes.

In summary, not all the indicators of insufficiency and distortion can be attributed to current social policy arrangements. Many problems result from socioeconomic factors whose negative impact can hardly be reversed by the social action of the state. Nevertheless, certain positive effects of social policies did help limit the most pernicious effects of recent economic cycles. In this sense, the 1980s again reveal important lessons.

As we indicated in section 5.1—and because it could not be otherwise in a country characterized by such marked inequalities and levels of poverty as Brazil—there have been positive and tenable results, such as greater social equity and better living conditions for the population. These improvements result from six decades of social action by the state, which we do not want to minimize by our necessarily critical evaluation of the social policy model under which these results were achieved. Even during the 1980s, Brazil registered improvements in literacy rates, school enrollment, preschool attendance and basic education, and in health care services and housing.

Considering these data, Vilmar Faria in his studies of Brazil in the 1980s discusses some paradoxical outcomes. One is the marked impoverishment of the population—a 'lost decade'—even while minimum living conditions were sustained by the, however limited, supply and flow of social goods and services available to the most needy segments of the population. This was also a decade of redemocratization in Brazil. An increase in popular organization and political mobilization reinforced and gave greater chances of success to the movements of popular demands for better living conditions.

These considerations gain greater importance when we reconstruct and evaluate the reform movement of the Brazilian social protection system that occurred during the 1980s.
estimate that the minimum salary from 1981 to 1990 lost approximately 40%. On the other hand, despite strong fluctuations caused by various salary policy measures and by exchange policies, the historical rate of the Brazilian minimum salary, measured in dollars, has oscillated around US $50 dollars.

This information, even if approximate, helps us to better grasp the levels of inequity and poverty in Brazil. Using present day standards of consumption it is even possible to assert that the majority of the population is outside of the market. The Survey of Family Budgets (Pesquisa de Orçamento Familiar or POF), carried out in 1988 in the eleven largest metropolitan regions of the country, revealed that although a large percentage of families possessed goods such as stoves, televisions, and refrigerators (98.7%, 88.96% and 87.68%, respectively), 61.58% of family spending was for food (25.35%), housing (21.27%), and transportation (14.96%). Food expenditures alone represented 44% of spending by those who earned less than two minimum salaries suggesting that, with the addition of transportation and housing, poor families spend almost all of their incomes on these three items. If they consume other goods, it must be to the detriment of the three basics, particularly food (POF-IBGE 1988).

We now have at our disposal the most important elements for assessing the conservative character of the Brazilian welfare state and its narrow socioeconomic foundation. As we have seen, the social interventions of the state are based on the contributive capacity of the workers, thereby reinforcing what we call the Primary Distribution of Income and introducing only mild corrective tendencies. Herein lie some of the most severe limits of the social policy system. Low salaries for the majority coupled with a very high degree of income concentration constitute serious and resistant constraints on social programs and are responsible for a substantial part of the system's negative characteristics.

Note the small percentage of workers contributing to social security and the reduced dimension of the formal market, upon which a large percentage of the social policies funds are based. Add to this the low purchasing power of the salaried population. In other words, we are dealing with a narrow contribution base which, in itself, explains an important part of the low and insufficient value of benefits as well as the undesirable qualities of the social services it finances. Additionally, the insufficient degree of formalization in the job market, low wage levels, and the concentration of wealth tend to overburden social policies. In fact, there is an increasing demand for social policies to address the most basic needs, including food. People are unable to satisfy these basic needs even when they are formally employed and working, much less when they are part of the poorest fringes of the immense informal market.

Thus, the conservative model of the Brazilian social welfare state reaches few people, excluding and penalizing a significant part of the needy population through its internal working and distortions. However, many of the system's limitations stem from external causes, such as
5.4 The Limitations of Social Policies: Narrow Structural Bases

Given the origins and principles responsible for the expansion and reproduction of the social policy system, it is easy to understand the insufficiencies and distortions discussed in this study. On the other hand, we should be careful not to blame social policies for problems that they did not generate and whose solution is beyond their scope. With this caveat in mind, we outline here some of the socioeconomic factors that shaped the context for Brazil’s welfare state.

Brazil entered the 1980s with a per capita GDP of close to US $1,300 dollars; by 1989 this figure rose to almost US $2,000. After years of scarcity, poverty, and strong economic oscillations, economic growth at the end of the decade was even more concentrated than it had been at the beginning. From 1981 to 1989, the richest 10% of the population expanded its control of total national income from 46.6% to 53.2%. The richest 1% of the population, which enjoyed 13% of the national income in 1981, had increased its share to 17.3% by 1989. In the same period, the income of the poorest 10% of the population dropped from 0.9% to 0.6%. (The Gini index rose from 0.572 to 0.652 in this period.)

In 1988 job market indicators (NEPP/UNICAMP 1990b) revealed that, of a population reaching almost 141.3 million people, 76% (107.4 million) were in the productive age bracket, 43.2% were economically active (EAP), and 41.5% were economically employed (EEP). During that same year 49.3% of all EEP made no social security contributions. Estimates for 1988 show that 57.9% of EEP worked in the informal job market versus 42.1% in the formal market (NEPP/UNICAMP 1990a). Only a small percentage of individuals in the informal sector contributed to the social security system.

The narrowness of this contribution base becomes even clearer when it is estimated in terms of the total amount spent on salaries. In the late 1980s 48.6% of the work force earned less than two minimum salaries and 27.2% of the employed population earned one minimum salary. To give a better idea of how low salaries were and of the increasing concentration of wealth, it is worth following the percentage of total salaries in GDP: it fell from 40.79% in 1970 to 37.9% in 1980s, and in 1989 it was estimated at 30%.22

Salary figures tend to be unreliable, especially those from the 1980s which, in addition to being the worst inflationary years, were marked by innumerable salary policy measures. These measures were implemented according to disparate principles that affected the performance of minimum salaries differently from other salary categories, especially those of public employees. It is also difficult to refer to a more stable currency, such as the US dollar, particularly during the last years of the decade, given the strong controls on the exchange rate. With these caveats, we

22 Folha de São Paulo, 25 June 1989, p. 3.
These characteristics undergirded the consolidation of the Brazilian welfare state and characterized its operation until restructuring occurred in the late 1980s. Since ample sources document the distortions that mounted in the system, we wish only to emphasize certain widely accepted viewpoints regarding its organization and operation.

The organization of social policies was marked by excessive centralization, institutional fragmentation, overwhelming size, bureaucratism, technocratism, inappropriate autonomization of agencies, and high costs. These produced a host of negative effects:

---highly inefficient and ineffective social programs;
---counterproductive, but highly resistant, overlapping functions, agencies, target clienteles, objectives, operating mechanisms, etc.;
---mistargeting of social programs;
---partial or insufficient ways of perceiving and treating social needs, fragmenting the demand and pulverizing financial, human, and institutional resources;
---exaggerated delays between allocating and applying resources, occasioning a high degree of loss and the absorption of resources in high proportions before reaching the intended beneficiaries;
---an undesirable distancing between policymakers/implementors and the beneficiaries, resulting in poorly defined social programs in relation to the specific characteristics of needs;
---a near total absence of mechanisms to control and evaluate social programs and thus correct deficiencies or inhibit clientelistic or fraudulent uses of benefits;
---high instability and discontinuity of social programs, especially those that fostered innovation and experimentation;
---a disproportionate weight of bureaucratic, corporatist, and private interests in the definition and dynamic of state social institutions.

Two of these characteristics bear special emphasis: 1) the mistargeting of programs and 2) certain dimensions and results of highly centralized financing and spending.

In Brazil, the English expression ‘(mis)targeting’ has been used to identify various situations in which social spending fails to reach the appropriate sectors of the population. As we have seen, social spending often fails to reach the neediest because it is allocated to programs (housing or social security) that benefit primarily the middle and upper classes. Even within programs of more universalistic coverage, it tends to subsidize areas that benefit the middle and upper classes (hospitals and higher education) more than the poorest sectors of the population. International financial agencies have developed proposals to restructure Brazil’s social spending on the basis of this diagnosis. The diagnosis and the main goal of the proposals—better targeting—are generally correct. However, a discussion of selectivity and targeting versus policy universalization in Brazil deserves special consideration, given the complexity of the problem (see section 8.2).
In occupations characterized by greater instability and lower pay levels, workers frequently need to take money out of their FGTS accounts to compensate for unemployment. This makes it extremely difficult for them to accumulate savings in FGTS. Consequently the length of service guarantee, claimed to be a substitute for job security, ceases to operate. In other words, for the vast majority of Brazilian workers, unemployment benefits from the fund are substantially reduced, and it is practically impossible to finance a house or establish one’s own business with these resources.

Offering a prize for employee loyalty and identification with company interests, implicit in the argument that the creation of PIS-PASEP was an indirect way of ensuring worker participation in the company’s profits, probably also justified the use of length of service as a criterion for retirement. But using income and length of service to accumulate assets produces regressive results. For the vast majority of social program participants, whose income is less than five minimum wages, the fund does not accumulate assets but merely provides an income supplement.21

5.3 The Limitations of Social Policy: Organization and Operation

Examined in light of the previous section, the ability of social policies to alter the structure of opportunities in Brazil—and thereby reduce inequality in basic living conditions and increase the probability that social programs will reach the individuals and families who most need them—appears to have diminished. The limitations of social policies have been attributed largely to characteristics of their organization and development, particularly the absurd degree of administrative centralization and the distortions in the effective targeting of beneficiaries. Many of these characteristics have been studied and discussed, allowing us to compile the following list. We will later elaborate on those we consider fundamental:

—extreme political and financial centralization of government social programs at the federal level;
—a high degree of institutional fragmentation;
—exclusion of social and political participation from decision-making processes;
—the self-financing principle of social investments;
—the principle of privatization;
—the clientelistic use of state institutions.

—

21 PIS-PASEP used to pay one minimum salary to workers who earned less than five minimum salaries and who had contributed to the fund for at least five years. This program was terminated with the 1988 Constitution.
workers food program, PAT, targets formal sector workers and has reached only a small portion of the neediest population. In 1989, 18% of the program's beneficiaries earned less than two minimum salaries, compared to 40% who earned more than 5 minimum salaries. Only 7% of beneficiaries were from the Northeast, while 70% were from the Southeast, the most economically developed region in the country (Peliano 1990).

5.2.6 The Regressiveness of Social Spending Financing

Acute inequities exist in the collection and spending of social revenues. It is widely recognized that companies include the cost of their social contributions in the prices of their products, which constitutes a burden on the entire society. This burden penalizes the poorest sectors of the population because those with smaller incomes must spend a greater portion of their family budget on consumer goods. Additionally, the high payroll deductions penalize small and medium-sized companies, which rely heavily on labor. This factor stimulates informal relations within the job market and inhibits employment.

The most serious problem, however, is that the social funds system effectively excludes a substantial portion of the Brazilian population from access to social programs. In most instances the distribution of benefits is restricted to employees in the formal job market, who contribute directly to social funds or whose employers make contributions for them. Thus a system of earmarked contributions has been established; basic social rights are not inherent conditions of citizenship but privileges of the few. As already noted, all of society contributes, either directly or indirectly, to financing social benefits. Even in social security, to which the worker contributes directly, employer contributions constitute close to two-thirds of the system's revenues. Therefore, the argument that only those who contribute have the right to benefits is not valid.

Within social security and asset funds, the earmarking of contributions and benefits creates perverse results for the massive numbers of the population who are economically active but not in the formal job market. Even for those who are linked to the formal job market, the degree of protection is directly related to job stability, working conditions, and wage levels.

5.2.7 The Regressiveness of Workers' Asset Programs (PIS-PASEP and FGTS)

Regressiveness is also apparent within the workers' asset funds, PIS-PASEP and FGTS. Asset value is a direct function of salary level and, in the case of PIS-PASEP, is also a function of length of service. This means that a worker's position in the job market also determines the value of his or her participation in the fund. Better paid occupations with low turn-over rates—in the productive state sector and in private oligopolies—permit the accumulation of savings for use in situations of death, retirement, and other events provided for in the legislation, and/or for the expansion of family assets.
represent 4% of students in public higher education and those from families earning less than 1 minimum salary represent only 1%.\textsuperscript{20}

\begin{table}
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
Family income & Percent of total & Primary education & Secondary education & University enrollment \\
(minimum salary) & population & enrollment (%) & enrollment (%) & enrollment (%) \\
\hline
1 and less & 30.8 & 14.2 & 2.7 & 1.0 \\
1-2 & 27.9 & 23.1 & 9.9 & 2.5 \\
2-5 & 26.5 & 37.5 & 33.9 & 20.6 \\
5-10 & 9.0 & 17.3 & 30.3 & 30.1 \\
more than 10 & 5.8 & 7.9 & 23.2 & 45.8 \\
\hline
\end{tabular}
\caption{Access to Education: Distribution of Students by Family Income, 1982}
\end{table}

Source: World Bank (1988b) and Folha de São Paulo, 29 April 1990

This perverse relationship between income level and benefits was also found in the federal housing system, which existed for nearly 20 years. Theoretically created to address the need for low-income housing, the system ended up benefiting a much greater number of middle-income than poor families. Only 273,000 of the 4.5 million housing units the agency built were assigned to families with incomes equal to or less than 3 minimum salaries. Between 1965 and 1984 only 6.4% of federal housing system financing was allocated to families with incomes below 3.5 minimum salaries. During the same period, families with incomes between 11 and 16.5 minimum salaries received 23.2% of the financing (Table 3).

It is important to remember that the inequities of Brazil's housing policy are due not only to the allocation of BNH resources but also to the enormous subsidies given to the middle class. It is well known that the highest income population, which managed to accumulate savings with FGTS and obtain household financing, benefited greatly from a policy later adopted to refinance, below the indices of monetary adjustments, the balance owed on housing. This resulted in a large subsidy for the middle class, paid for by the entire society.

Even within welfare programs targeting the poorest sectors of the population, distortions occur in the relationship between income and access to benefits. Food and nutrition programs offer the clearest examples. School meals are supposed to be distributed to all students enrolled in primary school, but this is more likely to happen in the more developed than in the poorest regions of the country. Additionally, only 63% of students from the poorest families, compared to 83% from families in the highest income bracket, attend schools that have a meal program.

\textsuperscript{20} World Bank (1988b, 13, 15).
5.2.5 Inequities Associated with Income Inequality

It is difficult to draw a consistent picture of the differences in access to social goods and services based on income levels, although such differences visibly exist. It is even more difficult to detect changes in the structure of opportunities. Policies that have tended to universalize access and extend coverage, such as basic education and medical attention, theoretically should have reduced the effect of income differences, at least in term of access to the system if not necessarily in terms of the quality of the services rendered. Nevertheless, the few existing data register very strong inequities associated with income differences.

In 1986, the World Bank conducted a study of the levels of benefits received by different income groups (Table 11). The poorest sector, with per capita incomes of less than half of one minimum salary, comprised 41% of the population but received only 18% of all social benefits.

<table>
<thead>
<tr>
<th>Minimum salary per capita</th>
<th>Percentage of total population</th>
<th>Percentages of benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 and above</td>
<td>0.3</td>
<td>0</td>
</tr>
<tr>
<td>10-20</td>
<td>1.0</td>
<td>4</td>
</tr>
<tr>
<td>5-10</td>
<td>3.0</td>
<td>14</td>
</tr>
<tr>
<td>2-5</td>
<td>12.0</td>
<td>21</td>
</tr>
<tr>
<td>1-2</td>
<td>18.0</td>
<td>21</td>
</tr>
<tr>
<td>1/2-1</td>
<td>24.0</td>
<td>22</td>
</tr>
<tr>
<td>1/4-1/2</td>
<td>22.0</td>
<td>11</td>
</tr>
<tr>
<td>1/4 and less</td>
<td>19.0</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: World Bank (1988b)

A 1982 comparison of income level and educational opportunities demonstrated restricted access for the poorest sectors of the population (Table 12). Although disparities existed at all levels of education, they were most acute at the secondary and university levels. Children from families earning less than two minimum salaries had little chance of attending secondary school or university.

Another frequently identified inequity within educational policy is the distribution of resources at each level of instruction. Higher education receives 23% of the education budget while only 9% is allocated to the secondary level. This results in a low-quality system of public secondary education which covers very few of the eligible population. Higher education is accessible mainly to upper-income families who can afford to pay for private, better-quality secondary education. Almost half of public university students come from families with incomes above 10 minimum salaries. Students from families earning less than 2 minimum salaries barely
5.2.4 Retirement Inequities

The trend in aging of the population, as well as factors related to the effective rate of income substitution of social security benefits (especially retirement and pension benefits), should be increasing the probability that the elderly gain wider access to social benefits. To better evaluate their actual appropriation of social benefits, however, one must recognize certain distortions in the retirement and pension system which tend to relativize any potential advantage.

The retirement system has perpetuated various inequities. For example, fewer retirements are granted to rural workers than to urban workers and the value of retirement benefits for rural workers is much lower. Consequently, when they retire, rural workers are more likely to become poor and suffer greater economic hardships than urban workers. Rural benefits, which in numbers represent an average of 28% of all benefits, amount to only 14% of the total benefit value. Of total spending on social security benefits in 1985, it was estimated that 83.9% was allocated to urban sectors (of which 61.8% was for retirement and pension benefits) and 16.1% to rural areas (of which 11.9% was for retirement and pension benefits).

Within the urban population, the discrepancies among number and values of retirement benefits for disability, old age, and length of service are extremely high, indicating a regressive pattern. The most regressive situation is that of retirement by length of service. Close to 60% of those who retire under this criterion are under 55 at the time of their retirement. Additionally, almost none of the beneficiaries belong to the lowest income sectors of the population. Although retirees by length of service represent only 22% of all retirees, they receive 50% of all retirement benefits.

Retirement by length of service, which is granted as a general rule in very few countries in the world, would be justifiable if the objective were to benefit low-income workers whose working conditions are much worse than those faced by other workers. But it is precisely the low-income workers who are subject to the excessive instability of the job market and, consequently, have difficulty proving that they have sufficient length of service to retire. Instead, this retirement criterion benefits workers who occupy better positions in the job market and whose laboring capacity is not spent. In fact, the majority remain in the labor market even as they receive retirement benefits.

Evaluating retirement benefits in terms of income replacement further highlights the inequalities. In 1985, when the average salary of active workers was 4.42 minimum salaries, the average value of retirement benefits for length of service was 2.74 minimum salaries, for disability (including work-related injuries), 1.46 minimum salaries, and for old age, 1.24 minimum salaries. Because social programs other than social security are almost nonexistent for the elderly, they should be classified as a severely unprotected sector of Brazil's population.
5.2.3 Age Differences

There are no longitudinal data available for an accurate evaluation of changes in equitable access to the benefits of social programs according to age groups. Theoretically, two groups should constitute the most protected clientele of social programs: children, because of their greater dependence on family resources, and the elderly, because of their greater dependence on social security benefits. There are additional factors in Brazil to reinforce this thesis.

A large proportion of Brazil's children are found in low-income families, thus concentrating among the poor much of the demand for social programs and benefits directed at children. In 1987 44% of the population under 18 years lived in families whose monthly per capita income equaled half of one minimum salary. Measured another way, 28% of the poorest households in the country sheltered 45% of children under 15, and 60% of children younger than one year lived in households without adequate sanitary conditions. At the other end of the age spectrum, the inequities that characterize the retirement system in Brazil, which will be discussed further, increase the probability of impoverishment for the elderly population.

Table 10 shows the proportion of social benefits received by these vulnerable age groups. The elderly population, representing 4% of the population in 1985, received through social security almost one-third of all spending on benefits. Even with the increased number of food and nutrition programs directed at them, small children, who constitute 13% of the population receive only 5% of total benefit spending. The 5- to 14-year-old group received a more equitable share, due to the near universal system of public primary education. In contrast, the 15- to 19-year-old group is disadvantaged due to the low priority given to secondary education.

<table>
<thead>
<tr>
<th>Age groups</th>
<th>Distribution of benefits 1985</th>
<th>Age group as percentage of total population 1985</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 and older</td>
<td>31</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>55–65</td>
<td>16</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>40–54</td>
<td>5</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>25–39</td>
<td>6</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>20–24</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>15–19</td>
<td>6</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>5–14</td>
<td>22</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>0–4</td>
<td>5</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: World Bank 1986; Magno de Carvalho 1989
Infant mortality rates are also much higher in the North and Northeast than in other regions. Although infant mortality rates have been declining throughout the country, regional differences remain pronounced. A United Nations Children's Fund (UNICEF) study shows that, in 1980, the difference between the rates of the Northeast and the Southeast was around 61%; in 1986 the difference was 126% (with rates of 102.9 and 43.3 per 1,000, respectively). Studies regarding causes of death indicate that avoidable causes predominate in the North and Northeast regions. These include undiagnosed causes and intestinal infections, frequently associated with deficiencies in basic health care and infant care follow-up programs. In the Southeast, South, and Central-West, the most frequent causes of infant death are external causes and pneumonia, a situation that usually indicates that medical attention is available.

In the Northeast, nutrition indicators have improved somewhat. For example, between 1975 and 1986 the percentage of children below the average size for their age group decreased notably. Those percentages fell from 16.9% to 4.5% for the 0- to 6-month-old group; from 19.9% to 10.7% for 6- to 12-month olds; from 21.1% to 11.8% for the 1- to 2-year-old group; and from 22.7% to 5.4% for the 2- to 5-year olds.

This, however, does not signify decreases to tolerable levels in the most underprivileged regions. Recent research indicates that, compared with states in the South and Southeast which registered only 5% of children under 5 years who weighed less than the standard, Northeastern states such as Alagoas and Sergipe registered around 31% and Maranhão and Piauí registered 33.8%.

The number of households receiving treated water in the Northeast region has risen, although in 1985 the difference from the national average was still enormous. Nationally, 68.7% of homes received potable water; in the Northeast the rate was only 35.7%, though this was up significantly from the 1970 rate of 11.1%.

Undeniably the worst indicators of health and living conditions within the North and Northeast are associated with the unequal distribution of medical equipment and services and sanitation. In 1984, when the national average of households adequately served by a sewage system or septic tank was 46.1%, the Northeast recorded only 15.8%. In 1980 the North and the Northeast recorded the lowest indices—less than half of the national average—of vaccination coverage for children under one year. These inequalities are also present in the annual rate of medical visits per inhabitant. In 1988 the North and the Northeast registered rates of less than 1.6 visits, compared with 3.9 visits in the Southeast.

Regional inequality is also apparent in educational indicators, including passing grades and dropout rates at the primary level. In 1987 87.1% of the 7- to 14-year-old cohort attended school in the Southeast compared to 77.9% of the same age group in the Northeast.
In the discussion that follows, we adopt a different methodology, examining the performance of nearly sixty years of social policies from another perspective: In which ways has Brazil's social welfare system been capable of reducing the most glaring inequalities present in society—of income, and in respect to gender, age, and region? We will examine the most serious distortions within the social policy system from this perspective. Then we will examine the more specific issue of living conditions among the most needy sectors of the population during the economic crisis of the 1980s: To what extent, despite well-known restrictions, did the supply and availability of public social goods and services at their disposal help them to at least resist drastic impoverishment and extremely sharp drops in registered incomes?

5.2 The Welfare State, Social Inequalities, and Policy Inequities

Wanderley G. dos Santos (1979) began his studies on the Brazilian social welfare state by questioning the achievements and limitations of social policies in alleviating the most glaring needs and inequalities in the country. Following that inspiration, we will examine the present period and the changes that have occurred in the major social indicators and in the structure of opportunities, taking into account gender, race, region (including metropolitan), age, and income.

5.2.1 Inequalities Based on Gender and Racial Differences

In his 1979 study, dos Santos underlined the decrease in gender differences in literacy rates. In 1940, 8.2 percentage points distinguished men and women, but by 1987 this difference fell to 0.2 percentage points. Differences in literacy rates attributed to race have also declined, although they remain relatively high. In 1940, when the general literacy rate was 38.2%, the rate for the white population was 46.9%, for the mulatto population 25.5%, and for the black population 18.5%. In 1950 these percentages were 42.7%, 52.7%, 26.6%, and 23.5%, respectively. In 1986 the country registered a general literacy rate of 78.5%; the rate for the white population was 86.5%, for the mulatto population 65.3%, and for the black population 68.2%.

5.2.2 Regional Differences

In Brazil major indicators of living conditions vary considerably by region, and in some cases these differences have grown more acute. In 1940 average life expectancy in the Northeast was 10.85 years lower than in the South, the region with the highest rate. By 1980, the difference between these two regions had increased to 16.54 years, and compared to all regions the Northeast registered the lowest overall growth in the number of people between 40 and 80 years of age.
more than 43% of infant deaths. Data from 1985 indicate that 53.2% of the deaths of children under one year and 71.5% of the deaths of one-year-old children were attributed to these preventable causes (NEPP/UNICAMP 1986). Malnutrition alone was responsible for 5.5% of infant deaths and 8.4% of one-year-old deaths. Recent data obtained by the National Survey of Health and Nutrition (Pesquisa Nacional de Saúde e Nutrição) indicated that in 1989 31% of children under five years manifested signs of malnutrition. However, in comparison to 1974–75, this percentage was one-third lower for all forms of malnutrition and two-thirds lower for moderate and serious forms.

Consistent with these improved mortality rates, the average life expectancy of Brazilians rose by approximately 20 years between the 1940s and the 1980s: from 41.2 years in 1940 to 60.1 years in 1980, and to 64.89 in 1988.

The illiteracy rate for adults above age 15, which remained around 50% in the 1950s, decreased to an average of 17.5% by the late 1980s. In 1988 the 15- to 19-year-old population registered a rate of 9.9%, while the 50- to 59-year-old cohort registered 29.8%, indicating the positive impact of expanded educational access. The degree of schooling for the general population rose consistently during the 1980s. In 1981, 23.1% of people 10 years and older had not completed one year of instruction and only 18.3% of the total population had completed eight or more years of schooling. By 1989, these values were nearly inverse: 18.7% and 24.3%, respectively.

Longitudinal data on sanitation and housing conditions are limited, but indicate that despite important progress, basic sanitation needs remain serious. Although the percentage of urban households connected to a main water line increased from 42% to 90% between 1960 and 1980, only 46% of urban households were connected to a sewage system or septic tank in 1984 (up from 26.6% in 1970).

Brazil’s social policy system is commonly evaluated by one of two methods, each drawing a negative conclusion. International comparisons of social indicators place Brazil in an unfavorable position—distinct from the position that it occupies in terms of economic growth and development. A recent classification, based on the human development indicator of the United Nations Development Program (UNDP) combines social and economic criteria, ranking Brazil 50 of 130 countries.

The other method evaluates the performance of social policies based on the outcome and efficiency of social spending. While we do not completely agree, given the acknowledged difficulties of the measures involved, it has become a common assumption since the late 1980s that Brazil spends a lot and spends badly. In fact, the problem is less one of overspending than of correct allocation and efficacy. Distortions in allocating and administering social spending are immense, though their volume is still much less than the actual needs of the population.

Since its inception, the Brazilian social protection system has not placed the reduction of poverty and inequality as its principal objective. Certainly the strong conservative pattern and particularistic tone of the system limited the gains in greater equity. Nevertheless, no system of social protection and transfers—however generous its financial resources, progressive its social priorities, and proper its procedures of allocation and administration—is capable of single-handedly reversing massive structural and socioeconomic constraints that powerfully reinforce misery, poverty, and inequalities. In other words, while many problems and distortions in the Brazilian welfare state warrant correction, many positive results have been achieved. Furthermore, many difficulties that have been incorrectly attributed to the social policy system are due to problems insoluble within the scope and capabilities of this system.

5.1 Principal Social Indicators: Long-Term Performance

In this section, we examine several social indicators associated with 'the social state of the nation.' The classic social indicators—general mortality, infant mortality, life expectancy, level of basic education among adults, and housing conditions—show a positive long-term trend. Much of the credit for this trend undeniably belongs to the expanded access and coverage of social programs.

Between 1940 and 1980, the general mortality rate declined substantially. The rate of decline was most impressive after 1960, when the coefficient dropped from 14 per 1000 to 9 per 1000 in 1980. Large regional differences exist, however: in the 1970s the Southeastern and Southern regions registered coefficients of 6.9 per 1000, while the Northeast registered 12.1 per 1000. The epidemiological profile of the population has also changed: infectious diseases and parasites have declined as the leading causes of death, replaced by circulatory system illnesses, external causes, and tumors.

Allowing for a discrepancy in the available data on infant mortality, the rate has decreased substantially since 1940, but principally since 1970. In 1940, 163.5 deaths were registered for every 1,000 live births; in 1980 the indicator decreased by 45% to 87.9 per 1000. The 1980s witnessed a strong, albeit fluctuating, decline in infant mortality, which actually increased by almost 10% between 1982 and 1984 and then began to fall again to an average of 53 per 1000 in 1986. Recent studies credit improved sanitation with a 48% reduction in infant mortality from preventable diseases and a 42% reduction in the general mortality rate. However, substandard living conditions, lack of medical attention, and inadequate infant nutrition are still responsible for
Third, the data point to a rise in spending financed through treasury resources, especially in the second half of the decade. The increased importance of these resources, however, cannot be interpreted as a political decision in favor of social programs. A substantial part of treasury-financed social spending corresponds to the payment of personnel and maintenance, as well as retired workers and pensioners from every governmental agency involved. The cyclical nature of social security receipts further pressures the federal treasury to cover the deficits of the system.

Fourth, the financial support for education from the treasury is bound by budgetary requirements established by the Calmon Amendment, which allocates a minimum percentage of the federal budget to this area. Unlike other items in the budget, the education allocation does not require annual approval by Congress. Nevertheless, governmental obligations to education are being financed through budgetary manipulations and have not met the priorities of basic education for which they were created.

To interpret the overall increase in federal social spending as an indicator of the government's commitment to social policies is problematic. In addition to questions already raised about treasury resources, it must be remembered that FPAS is the main item of the consolidated social account. The amount spent every year on social security is inelastic and does not allow for new social initiatives by the government. Nevertheless, one area within FPAS was responsible for an increase in health care expenditures. Our analysis showed increased spending in SUDS, particularly between 1987 and 1988.

Food and nutrition programs, under the Ministry of Education, the Ministry of Health, and the Special Secretary of Community Action (Secretaria Especial de Ação Comunitária or SAC), linked to the Office of the President, also deserve mention. These programs were privileged in the distribution of FINSOCIAL resources, resulting in significant spending increases. The Unemployment Insurance Program (Programa de Seguro Desemprego), created in 1986 to commemorate the inauguration of the Cruzado Plan, is yet another example of new growth. But even in this case, the government's decision did not go beyond instituting a program. Without its own source of funding, the unemployment program remained dependent for three years on the availability of treasury funds. The program was not consolidated until the 1988 Constitution allocated part of PIS-PASEP resources for this end.

Thus, despite the growth in federal social spending that began in 1985 and the increased participation of treasury resources, the so-called social priority of the first New Republic government may have been limited to a few programs whose continuity, in some cases, was not even guaranteed.
from FINSOCIAL, these expenditures more than doubled the 1980 levels. Another significant growth area was that of the Ministry of Labor; accounting for only 0.6% of social spending for the total period, it represented 2.9% of overall spending in 1989.\textsuperscript{17}

As a percentage of GDP, the 1988 expenditures for social security and welfare programs represented 4.7%, health care, 2.3%, and education and culture, 2.0%. Combined expenditures for housing and urbanization, sanitation and environmental protection, food and nutrition, and employment were less than 1.5% of GDP.

Examining the relative weight of the various funding sources by type of expenditure shows that most social programs, except food and nutrition and employment, rely heavily on earmarked resources from social contribution funds. During the 1980s, FPAS covered 80% of health care expenditures and close to 74% of social security and welfare spending.\textsuperscript{18} Education-related programs rely on tax revenues, as provided for in the Calmon Amendment. Housing and urban development and sanitation are largely funded by the FGTS. The federal treasury, primarily through the resources of FINSOCIAL, provides major funding for food programs. The labor sector also relies on treasury resources.\textsuperscript{19} FAS participates in the funding of some programs in the areas of health care, social security and welfare, education and culture, and employment. The resources of this fund, however, do not represent significant portions of spending in any of these areas.

Several conclusions can be drawn from the analysis of federal social spending during the 1980s. First is the importance of social contributions in the financing structure of spending. The largest areas of social spending, social security and welfare and health care, all rely on social security contributions as their basic funding sources. Additionally, those sectors whose funding grew the most during this period (education and food and nutrition) have relied, since 1985, on a substantial reinforcement of FINSOCIAL funding.

Second, federal social spending is dominated by allocations for social security and welfare. The logic, the dynamic, and the tendencies of federal social spending can be explained, at least in principle, by the fact that social security expenditures represented more than half of all social spending in this period.

\textsuperscript{17} This is explained by the collection of PIS-PASEP resources specifically for this program, as provided for by the 1988 Constitution. This issue will be dealt with later in this section.

\textsuperscript{18} The elevated participation of treasury resources in meeting the balance of social security and welfare expenditures (close to 26%) is explained by the spending on compulsory social contributions of the Federal Government (Encargos Previdenciários da União or EPU) and PASEP. In 1989, we observe an exaggerated and artificial increase in the participation of treasury funding in this expenditure, due to the incorrect accounting of FINSOCIAL resources and the percentage of profits as a federal contribution to FPAS. This issue will be addressed further.

\textsuperscript{19} In 1989 PIS-PASEP resources began to finance the unemployment insurance program.
Of the various social contributions, the main item to consider is the social security payroll contribution, constituting the FPAS. Throughout most of the decade, this represented more than half of all federal social spending, reaching a high of 60% in 1984. Its participation decreased towards the end of the period, falling to 48% in 1988. Because these revenues come from workers’ payroll deductions, the performance of the FPAS-social spending ratio confirms what other indicators have suggested: a decline in total salaries (massa salarial).

Other significant social contributions are the FGTS and FINSOCIAL. Throughout the 1980s they covered an average of approximately 7% of social spending. Despite the similar average participation of these two funds, FGTS resources were unstable and decreased substantially: until 1983 they represented 13% of overall spending, but in the 1984–1988 period they accounted for only 6%.

The principle areas of social spending financed with treasury resources were social security and welfare programs and education and culture. The former represented 14% of overall federal expenditures between 1980 and 1985, then fell to 8% between 1986 and 1989. Expenditures for education and culture were more stable, representing around 11% of the federal budget throughout the decade.

Other noteworthy areas financed with treasury resources include health care, which accounted for almost 2.5% of federal expenditures, and food and nutrition. Until 1984, spending for food and nutrition programs represented only 0.5% of federal expenditures, but between 1985 and 1988 this proportion rose to 1.5%.\(^\text{16}\)

The average distribution of all social spending by program area during the 1980s reveals the predominance of social security and welfare programs, which absorbed more than half of all resources (Table 7). Health care received the second largest share of resources, an average of 19%. However, beginning in 1987, when the Unified and Decentralized System of Health Care (Sistema Unificado e Descentralizado de Saúde or SUDS) was implemented, this area’s share rose to 23%.

Educational programs also accounted for growing federal social expenditures. Until 1984, education expenditures absorbed close to 11% of total resources. In 1985 that share rose to 14%, and in the 1986–1989 period it increase to 18%. Housing and urban development took an opposite path: its participation dropped from 12% of total social spending in 1980, to almost 9% between 1981 and 1983, and to 4.5% in 1984.

Sanitation and environmental protection represented a relatively stable budget item, accounting for 2% to 4% of social spending during the period. In contrast, spending for food-related programs grew significantly in the second half of the decade. Largely due to resources

\(^{16}\) This increase was sustained by funding from FINSOCIAL. Food and nutrition programs absorbed close to 32% of this fund’s revenues in 1985 and 41% in 1986.
the 1983–84 decreases were more acute for per capita spending (Table 9). The level attained in 1982, $234, was not surpassed until 1988 when per capita social spending reached $283.

### TABLE 9

**Evolution of Total and Per Capita Federal Spending on Social Programs**

*Brazil, 1980–89*

<table>
<thead>
<tr>
<th>Year</th>
<th>Cr$ million&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Total var. %</th>
<th>US$&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Cr$</th>
<th>Per capita var. %</th>
<th>US$&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Spending as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>3,203,237</td>
<td>3.13</td>
<td>26,679</td>
<td>25,812</td>
<td>0.80</td>
<td>220</td>
<td>10.10</td>
</tr>
<tr>
<td>1983</td>
<td>2,862,069</td>
<td>-15.13</td>
<td>19,078</td>
<td>22,050</td>
<td>-17.03</td>
<td>157</td>
<td>9.39</td>
</tr>
<tr>
<td>1984</td>
<td>2,483,553</td>
<td>-13.23</td>
<td>16,714</td>
<td>18,716</td>
<td>-15.12</td>
<td>138</td>
<td>7.94</td>
</tr>
<tr>
<td>1985</td>
<td>2,905,040</td>
<td>16.97</td>
<td>18,835</td>
<td>21,424</td>
<td>14.47</td>
<td>155</td>
<td>8.44</td>
</tr>
<tr>
<td>1986</td>
<td>3,284,258</td>
<td>13.05</td>
<td>23,522</td>
<td>23,713</td>
<td>10.69</td>
<td>194</td>
<td>8.73</td>
</tr>
<tr>
<td>1987</td>
<td>3,515,162</td>
<td>7.03</td>
<td>28,252</td>
<td>24,842</td>
<td>4.76</td>
<td>233</td>
<td>9.63</td>
</tr>
<tr>
<td>1988</td>
<td>3,639,001</td>
<td>3.52</td>
<td>34,285</td>
<td>25,201</td>
<td>1.44</td>
<td>283</td>
<td>10.47</td>
</tr>
<tr>
<td>1989</td>
<td>4,047,312</td>
<td>11.22</td>
<td>50,644</td>
<td>27,402</td>
<td>8.74</td>
<td>418</td>
<td>11.25</td>
</tr>
</tbody>
</table>

Source: Consolidated Account of Social Spending, IPEA/IPLAN and IBGE

<sup>a</sup> 1990 prices—FGV's general price index (Indice Geral de Preços-Disponibilidade Interna or IGP-DI) is used as a deflator.

<sup>b</sup> Converted by the average dollar rate, each year, on the official exchange rate (selling price).

To analyze the structure of resources that fund federal social spending, we begin by evaluating the relative participation of social contributions and treasury resources. This analysis is important because social contribution resources are allocated to specific clienteles, as in the case of social security contributions, or to determined programs, such as FGTS, FINSOCIAL, and FAS. Treasury resources, however, are not linked to any specific program or clientele and, except for the part spent on federal personnel and on inactive and pensioned workers, their allocation depends on political decisions made each fiscal period.

The participation of social contributions in the financing of public social spending was, on average, 70% until 1987, but by 1988 social contributions covered only 62% of social spending. The remaining 38% was funded by treasury resources, which were increasingly used to finance social spending after 1984. It bears noting that the treasury resources cover expenditures for personnel, maintenance, and administrative costs of almost all of the social departments and their related organs, as well as those related to PASEP.
The revision of the Law of Educational Foundations and Guidelines (Lei de Diretrizes e Bases da Educação), dating from the 1960s, awaits final approval from Congress. From a financing standpoint, several questions depend on the approval of this law: the time limit for the distribution of Education Salaries, the rules for private sector use of public resources, and the criteria for using earmarked resources (the Calmon Amendment). This latter aspect is of particular importance due to the misallocation of significant budget resources that should have been applied to 'maintenance and educational development expenses,' as established in the Calmon Amendment and confirmed in the Constitution.

The urban development sector also remains unregulated. The only change in this area was the passage of the new FGTS law,\(^{33}\) which brought important alterations such as a new FGTS Board of Trustees, composed of business, workers, and government leaders and given numerous responsibilities regarding resource administration. The law also stipulates that at least 60% of the fund's resources be allocated for low-income housing. A contradiction exists, however, between the spending objective and the type of resources available: FGTS resources are disbursed as loans, requiring repayment, which makes them virtually unavailable to the poorest sectors of the population. In 1980 the Ministry of Social Action instituted the Immediate Action Housing Plan (Plano de Ação Imediata para Habitação), an emergency measure aimed at the lowest income populations. But since it was to be funded primarily by FGTS, its stated objective has been immediately jeopardized.

Social policy financing can be evaluated by examining the social protection budget. In contrast to the new social security benefits plan, which was not immediately implemented, the innovations in financing took effect immediately after the promulgation of the new Constitution. The contribution from profits, intended as a new resource base for social protection, was created in December 1988 and the FINSOCIAL contributions increased several times to a current level of 2%, compared with 0.5% at the end of 1988.

Social security payroll contributions accounted for 53% of all revenues in the 1991 social protection budget, followed by resources from FINSOCIAL, representing 27%. PIS-PASEP contributed 13% and the new profit contribution represented less than 5%. Not counting the PIS-PASEP resources, which are completely tied to unemployment insurance and to the annual salary bonus, 61% of all resources come from payroll contributions, 30% from gross income which encompasses FINSOCIAL, and 5% from profit contributions. Thus, the system remains heavily dependent on resources from payroll taxes.

To provide an idea of the financial dimension of this new budget, we note that in 1990 the combined resources for social protection represented nearly 86% of federal tax revenues. Table

\(^{33}\) Law no. 8,036 of 11 May 1990.
13 details the total tax assessment, which amounted to 25.5% of GDP in this period. Social protection contributions equaled 7.41% of GDP, the largest share coming from payroll withholdings, which represented 4.55% of GDP. Federal tax revenues represented 8.21% of GDP. Of this, income tax contributed the largest share, equal to 3.96% of GDP.

### TABLE 13

**Gross Assessment of Primary Taxes by Level of Government**

**Brazil, 1989–1990**

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>As a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1989</td>
</tr>
<tr>
<td>1. FEDERAL GOVERNMENT</td>
<td></td>
</tr>
<tr>
<td>Main fiscal tax budget&lt;sup&gt;b&lt;/sup&gt;</td>
<td>14.80</td>
</tr>
<tr>
<td>-Income tax</td>
<td>7.07</td>
</tr>
<tr>
<td>-Industrial products tax</td>
<td>3.95</td>
</tr>
<tr>
<td>-Financial operations tax</td>
<td>2.04</td>
</tr>
<tr>
<td>-Others</td>
<td>0.15</td>
</tr>
<tr>
<td>Contribution to social protection</td>
<td>0.93</td>
</tr>
<tr>
<td>-Payroll&lt;sup&gt;c&lt;/sup&gt;</td>
<td>6.08</td>
</tr>
<tr>
<td>-Gross income</td>
<td>4.28</td>
</tr>
<tr>
<td>FINSOCIAL</td>
<td>1.61</td>
</tr>
<tr>
<td>PIS-PASEP</td>
<td>1.01</td>
</tr>
<tr>
<td>Private entities profit</td>
<td>0.60</td>
</tr>
<tr>
<td>FGTS</td>
<td>0.19</td>
</tr>
<tr>
<td>Other taxes</td>
<td>1.31</td>
</tr>
<tr>
<td>2. STATE</td>
<td>6.55</td>
</tr>
<tr>
<td>Commodities and service circulation taxes</td>
<td>6.07</td>
</tr>
<tr>
<td>Other taxes</td>
<td>0.48</td>
</tr>
<tr>
<td>3. MUNICIPALITIES</td>
<td>0.60</td>
</tr>
<tr>
<td>TOTAL</td>
<td>21.95</td>
</tr>
</tbody>
</table>

Source: Afonso and Villela (1990)

<sup>a</sup>Preliminary estimates: actual collection of main federal taxes and ICMS; other taxes were estimated based on the 1989 tax assessment.

<sup>b</sup>Tax revenues and contribution revenues found in the General Account of the Federal Government, excluding social protection contributions.

<sup>c</sup>Paid by employees and employers for INPS/INSS.

Social protection financing has encountered serious problems since the promulgation of the 1988 Constitution. Some result from the use of FINSOCIAL and profit contributions—intended exclusively for social protection—for other payments. The federal government has transferred programs from the fiscal budget to the social protection budget to compensate for losses incurred from the tax reform and from earmarking FINSOCIAL resources to social protection. This has significantly reduced the anticipated financial impact of the constitutional changes on social programs.
Even before the enactment of new criteria for the award of benefits decided in the new Constitution, social security absorbed close to 67% of social protection revenues. This has resulted in a reduction in the amount of resources expected for health care. Article 55 of the Temporary Clauses of the Constitution established an allocation of 30% of social protection resources, excluding unemployment insurance, for health care, until the social protection budget was implemented. This percentage was never met, however: in 1989, health care received 28.6%; in 1990, roughly 23%; and the amount allocated in the 1991 budget was less than 20%.

The evolution of spending on health care, social security, and welfare, in terms of GDP, confirms this problem. In 1990, total social protection spending in relation to GDP was almost 70% higher than in 1988. Within this total, spending on social security and welfare as a percentage of GDP increased almost 96%, while growth in health care expenditures was only 18%. The impact of constitutional changes on health care was relatively less than the impact on other areas.

Another problem, previously mentioned, is that diversifying the financial base of social protection did not decrease the dependency on payroll tax contributions. The main source of funding continues to be the salary-based contributions of employees and employers, which are extremely vulnerable to economic cycles. Other funding sources are relatively inelastic. The FINSOCIAL deduction has already more than tripled since the promulgation of the Constitution, which imposes limits on new increases above the gross income base, given its impact on prices. There is also resistance against increasing profit contribution percentages, based on arguments about double taxing.

The difficulties are not restricted to the social protection budget. The federal budget was sharply reduced after the tax reform of 1988, and the capacity to maneuver fiscal adjustments by raising tax rates decreased significantly. This is because, for any increases in income tax and the industrial products tax (Impuesto Sobre Productos Industrializados), almost half of the resources must be transferred to the states and municipalities. Furthermore, close to 64% of federal tax revenues are committed to personnel expenditures and 18% are allocated to education. The federal budget is therefore extremely rigid and, as a result, treasury spending on social programs is likely to diminish.

Subnational governments, while clearly benefiting from the Tax Reform, also confront problems. First, the economic crisis has had negative effects on tax collection levels. Additionally, the federal government has required more rigid payments of state and municipal debts. Furthermore, the reduction of negotiated transfers has had a significant impact on state and municipal finances which depend heavily on these resources, especially for social program expenditures.

In summary, the public sector as a whole is in a deep financial crisis. The prospects for financing social policies in the next decade rest upon more general issues, such as the return of
economic growth and the needed changes in the tax system, in addition to the issues of financing each social area.

8. Dilemmas and Perspectives of the Brazilian Social Welfare State

8.1 The 1990s and the New Reform Agenda

The 1988 Constitution and the measures implemented by the new legislation completed the long cycle of social policy reforms initiated in the early 1980s. But at the beginning of the 1990s these changes overlapped with another reform movement which introduced a fresh agenda of discussion, debates, and proposals. In other words, just as one agenda of reforms was enacted—although poorly implemented—it was challenged again, this time from different perspectives and themes which may lead to a new program of reforms.

This is a paradoxical situation. Because the previous reforms have not been thoroughly established, we do not subscribe to the notion, which has gained predominance, of the ‘reform of the reforms.’ The real paradox seems to be that, just as the political and institutional conditions seemed to favor a more egalitarian and redistributive model of social-democratic social policies, various circumstances, including economic factors, are imposing a revision of this model, which may lead to a profound reorganization of its principles and structural parameters.

The biggest issue is the role of the state and public funds in providing social protection for the impoverished. The dilemmas are: statization vs. privatization; universalization vs. selectivity; social welfare vs. social insurance; minimum coverage of basic necessities vs. supplementary programs; state partnerships vs. profit-making private sector vs. nonprofit private sector in the production of goods and social services. All of these oppositions and alternatives are occupying a new agenda of discussion surrounding the future of social policies. All raise the more general issues of the reform of the state and of modernizing the country.

The following observations consider some of these themes. Although the debate is relatively new and the alternatives and proposals still immature, the discussion is often marked by strong political and ideological overtones which we will attempt to keep at a distance.

8.2 Poverty and Social Policies: Which Welfare State Model Can We Live with in the Short Term?

Brazil entered the 1990s with approximately 100 million impoverished people. Roughly speaking, one third (approximately 50 million) of the entire population lives below or at the poverty line; another third is just slightly above the line. This leaves only 50 million people who are
incorporated into the benefits of citizenship and the market economy (POF-IBGE 1988, discussed in section 5.4).

This picture of general social depression has been contrasted with that projected by policies of a relatively high level of social spending, revealing paradoxical outcomes. As already noted, preliminary assessments of the 1980s indicate that the population's living conditions would have been much worse if the country had not counted on a system of social policies, particularly a network of basic education and health services. In fact, indicators of educational coverage and universalization of access to basic health care services improved, when compared with the previous decades.

It is over the issue of poverty itself that the discussion about the future of social policies has encountered certain dilemmas, particularly when the debate pits universalistic policy conceptions against selective designs that target programs toward the poor population. Ironically, the present crisis allows the possibility of expanding social rights through the universalization of programs and the multiplication of noncontributive policies but, by reducing the amount of public and private resources available for social spending, it also imposes a certain selectivity of policies, prioritizing some beneficiaries above others.

This apparent contradiction can be explained ideologically with the concept of distributive justice: in order to gain redistributive force and to compensate social inequalities, public spending and social policies should privilege the poorest sectors of the population. Faced with existing inequalities and increased poverty, we seem to be passing from the concept 'give increasingly more to everyone,' an expression of the universalistic vision associated with social rights, to 'give more to those who have less,' placing priority on the needy population, selectively chosen by the focus of social policies and programs.

As we have seen, the 1988 Constitution sanctioned principles that point to the replacement of the conservative welfare state with a more institutional-redistributive or social-democratic model, with strong state influence and free social goods and services. Especially in the areas of health care, education, and social welfare, the Constitution affirmed the citizen's right to minimum benefits and emphasized universalistic forms of distribution.

However, the Constitution also opened the possibility for using selectivity criteria to allocate resources and target benefits toward the most needy. In other words, the country's dramatic situation of poverty and misery could not help but impose this other mode of social justice which, alongside universalistic policies associated with citizenship rights, established a means of focusing state action on the most vulnerable groups of the population.

Undoubtedly, one of the most important policy dilemmas is found in this context. On one side, we have the strong universalistic tradition of citizens' inalienable rights to education, health care, housing, social security, and welfare, guaranteed principally by the state as provider. On the
other side, the neoliberal prescription for social policy has emphasized the restructuring of social spending according to principles of selectivity, focusing policies on the most needy segments of the population, no longer providing free services to the better-off sectors of the population.

In more prosaic terms, this translates into the basic question of how many goods and services can and should be distributed, according to whether one believes in the universal rights of all citizens to these resources or whether one favors privileging the poorest segments of the population with social spending. Obviously, it would be a mistake to assume that these two criteria of social justice can always be reconciled.

However, it is clear that the argument that social spending should be exclusively focused on the poorest sectors can lead to very conservative, socially regressive methods of organizing social programs. In general the axes of the social policies proposed in the swell of conservative strategies of economic adjustment carried out in Latin America have been targeting, privatization, and decentralization.

The argument for targeting resources is based on evidence that, except in insignificant percentages, state social spending does not reach the poor sectors. Consequently, it is necessary to redirect this spending in order to concentrate it in the poorest sectors of the population. Privatization has been proposed to alleviate the fiscal crisis, to avoid irrationality in the use of public resources, and to increase the progressivity of public spending by not allowing more powerful sectors to appropriate benefits disproportionately larger than their contributions to financing them. It is hoped that decentralization will increase the efficiency and effectiveness of spending, by bringing problems and programs into closer proximity and transferring new responsibilities to the states and municipalities.

The conservative proposals for economic adjustment have been based partly on the thesis that, given the current levels of poverty and the expected negative social results (recession, unemployment, low salaries, etc.) from the proposed adjustments, programs aimed at the poor population are necessary; they are a relief mechanism for social tensions and help avoid more serious social convulsions. Concretely, such projects involve redirected social spending; subsidies for food and nutrition; emergency employment programs; and a search for alternative ways to produce and operate social services. All focus on the very poor population and usually tend to constitute so-called emergency programs.

Sometimes the reorientation of social spending, responding to allocation distortions and to the socially perverse appropriation of benefits, takes the form of proposals to alter the structure of public service tariffs (such as electricity and transportation), taxing them progressively in relation to income. Most frequently, this reorientation has fostered attempts to concentrate resources in specific programs (for example, basic food baskets, community programs, or self-help programs for building low-income housing) for ‘risk groups.’ In the majority of cases, it is the maternal-infant
group that receives health care and food supplement programs. Another, less developed, strategy to protect the poor throughout the adjustment period consists of emergency employment programs, which offer minimal remuneration for work in civil construction or public infrastructure maintenance.

Coherent with the proposal of targeting and selectivity of resources, the principle of privatizing services would mean a decrease in state commitment to those sectors of the population that possess the resources to buy in the market the goods and services they need. In Latin America, the conservative strategy of organizing emergency social programs generally tends to launch, or at least promote, the privatization of social services, whether through for-profit sectors or through nonprofit associative entities, nongovernmental organizations (NGOs), and community organizations.

Finally, decentralization of the administration and operation of public services has been part of this strategy. In addition to the justification of greater efficacy and rationality in spending, decentralization is understood as a means to open up possibilities for greater interaction of public and nongovernmental resources at the local level to finance social activities, as well as the introduction of alternative forms of production and operation of services that are more easily organized at local, municipal levels.

The insufficiency of this neoconservative strategy has been criticized from various perspectives. It is difficult to deny the necessity of emergency programs for extremely poor populations. But those who develop economic adjustment policies need to examine the structural roots of poverty and allow space for social policies that cannot be reduced to mere need-based emergency programs, generally carried out in a clientelistic manner with no reference to the social rights of citizenship. Critics have identified the socially unjust effects of this model:

Because the proposals for targeting resources and privatization occur in the context of sharp social inequalities, they serve to consolidate the inequality. On one side, a high-quality, private system of social services is created, financed by and exclusively available to the highest income strata. On the other side, a state system of social assistance operates with a minimal budget because the highest income strata do not contribute to it. Thus, it is able to distribute only some limited basic services to the indigent portion of the population (CEPAL 1988).

The emphasis on targeting resources that the neoconservative model proposes also risks being transformed into a kind of neobeneficence—this time in the care of the state rather than the ‘charity ladies.’

Nonetheless, targeting, selectivity, involving private for-profit and nonprofit sectors, and decentralization do not constitute an exclusively neoconservative strategy. On the contrary, there have been socially progressive proposals that envision effective policies aimed at the poor populations, which involve ‘conservative’ ingredients in their design. The gravity of the social
situation demands a radical program to get rid of poverty. Social policies must allow for a much more ambitious and socially expansive way of conceiving the targeting and selectivity of some social policies, while the modernization of the major subsystems of health care and basic education should continue with universal access.

In its implementation, this strategy would involve popular participation in the control of programs, would decentralize administrative mechanisms, and would incorporate organized social movements in developing and implementing programs. This offers an alternative to bureaucratic, centralized, costly, and uncontrollable schemes.

Undoubtedly certain criticisms of selectivity and targeted assistance are correct, especially when such assistance is released from public controls and associated with privatizing practices in the strictest sense. Some experiences show that if selectivity and targeted assistance are carried out in this way, they introduce extreme uncertainty and discontinuity in social policy. Programs become more assistance oriented and open ample space for arbitrariness in deciding who qualifies for benefits. Beneficiaries also risk being stigmatized. Neither can we fail to mention the deviations that theoretically healthy processes of decentralization may suffer when adequate mechanisms for redistributing resources are absent and there is no central authority capable of sustainedly reducing the individual, social, and regional inequalities that may be accentuated by decentralization. A profound segmentation of citizenship may also occur because of the dual nature of social policies: one policy for the poor (usually meagre and poorly financed) alongside a policy for the rich (usually sophisticated and generously funded, often deriving some of its wealth from public resources).

The universalistic institutional-redistributive conception has also earned criticisms. During a crisis situation this model tends to impede the establishment of priorities within social policies. And, in the majority of cases, the model is associated with exaggerated degrees of statism and bureaucratism. At least in some cases the free, uniform, and generalized distribution of certain social goods and services introduces aberrant distortions, offering access to the already privileged sectors of the population to the detriment of the most needy.

Accepting this polarization may not be the most fruitful approach to examining and evaluating the differing conceptions of social policies.

We are aware of the exaggerated distortions and serious limitations of the Brazilian model of social policies, principally when confronting the levels of poverty and inequality prevalent in the country. The most recent modifications of the model do not yet seem sufficient, as implemented, to overcome these problems. Thus, the issue of restructuring and reforming the Brazilian social welfare state remains alive in the 1990s. How is this issue to be tackled, given the dilemmas and criticisms we have just described?
There exists a neoconservative (or neoliberal) strategy of conceptualizing social policies aimed at poverty, in the economic crisis and throughout the process of adjustment. There are also socially progressive strategies of conceptualizing and implementing policies that intend, above all, to eradicate poverty and not merely to give emergency aid to the poor. These strategies have some aspects in common and neither has a monopoly on substantive proposals.

Selectivity and targeted assistance are not the exclusive property of conservative proposals; neither are the proposals of decentralization or the involvement of community and nongovernmental associations (a certain type of privatization) in the design of social programs for the poor. Without a doubt, there are socially regressive, conservative modes of proposing and implementing selectivity, targeted assistance, decentralization, or the involvement of NGOs. However, universalistic modes of distributing social goods and services, while perhaps guided by noble forms of understanding social justice, may also lead to distortions and ultimately to injustice.

The 1980s were prolific in experiences of transforming and modifying the design and scope of social policies. By the beginning of the 1990s, however, much of the optimism with which these processes were initiated has abated. An awareness seems to be growing that much of what was expected and asked of social policies cannot and will not be easily resolved in that realm alone. However effective they may be, social policies cannot resolve every social ill; they cannot completely compensate for the population's low buying power or the grave social costs of certain economic adjustment programs.

Nonetheless, many possibilities exist for altering the design of social policies and making social spending more effective. In the face of deteriorating living conditions and pessimistic scenarios of economic recovery in the near future, added to the demands imposed by economic modernization projects, strong and clear priorities must direct decisions about social spending. This will not be easy. It has always been difficult to establish social policy priorities. Policymakers will need to courageously revise the principles and concepts of social justice rooted in tradition and in the reform movements of recent years.
Appendix

Chronology of Social Legislation

Social Funds

1964  Education Salary—applied to elementary education.

1966  Employee Savings Fund (Fundo de Garantia por Tempo de Serviço or FGTS)—applied to housing programs.

1970  Social Integration Program (Programa de Integração Social or PIS)—financing activities in various sectors of the national economy; contributors: private businesses.

1971  Rural Workers’ Assistance Fund (Fundo de Assistência ao Trabalhador Rural or FUNRURAL)

1972  Civil Servants’ Asset Formation Program (Programa de Formação de Patrimônio do Servidor Público or PASEP)—financing activities in various sectors of the national economy; contributors: federal government, states, municipalities, and public businesses.

1974  Social Development Support Fund (Fundo de Apoio de Desenvolvimento Social or FAS)—support for social programs and projects.

1977  Social Security and Welfare Fund (Fundo de Previdência e Assistência Social or FPAS)

1982  Social Investment Fund (Fundo de Investimento Social or FINSOCIAL)—welfare.

Social Security

1933–38  Retirement and Pension Institutes (Institutos de Aposentadorias e Pensões or IAPs)

1932  Miners’ Savings Bank

1933  Maritime Workers’ Retirement and Pensions Institute (Instituto de Aposentadoria e Pensões dos Marítimos or IAPM)

1934  Tradespeople’s Retirement and Pensions Institute (Instituto de Aposentadoria e Pensões dos Comerciários or IAPC)

1934  Bankers’ Retirement and Pensions Institute (Instituto de Aposentadoria e Pensões dos Bancários or IAPB)

1934  Warehouse Workers’ Retirement and Pension Fund

1934  Longshoremen’s Retirement and Pensions Institute (Instituto de Aposentadoria e Pensões dos Estivadores or IPAEC)

1936  Industrial Workers’ Retirement and Pensions Institute (Instituto de Aposentadoria e Pensões dos Indústriários or IAPI)—from 1938 onwards, “it incorporated a large contingent of the urban working mass, previously marginalized from the process” (Silva 1983, 22).
1938 Transportation and Cargo Workers’ Institute (Instituto de Aposentadoria e Pensões dos Empregados de Transporte e Cargas or IAPETEC)
1938 Civil Servants’ Retirement and Pensions Institute (Instituto de Previdência e Assistência ao Servidor Público or IPASE)

1960 Organic Law of Social Security (Lei Orgânica da Previdência Social or LOPS)
1960 Inclusion of autonomous workers under mandatory insurance.
1967 National Social Security Institute (Instituto Nacional de Previdência Social or INPS)
1971 Rural Workers’ Assistance Program (Programa de Assistência ao Trabalhador Rural or PRORURAL)—generated through the Rural Workers’ Assistance Fund (Fundo do Assistência ao Trabalhador Rural or FUNRURAL).
1972 Domestic workers included under social security.
1974 Ministry of Social Security and Welfare (Ministério da Previdência e Assistência Social or MPAS)
1974 Creation of Social Security Data Processing Enterprise (Empresa de Processamento de Dados da Previdência Social or DATAPREV)
1974 Lifelong Monthly Income (Renda Mensal Vitalícia or RMV)
1977 National System of Social Security and Welfare (Sistema Nacional de Previdência e Assistência Social or SINPAS)
1977 Social Security Financial Administration Institute (Instituto de Administração Financeira da Previdência Social or IAPAS)

Food and Nutrition

1940 First Workers’ Meals Program, administered by the Food Services of the Social Security System (Serviço de Alimentação da Previdência Social or SAPS).
1942 Brazilian Aid League (Legião Brasileira de Assistência or LBA)
1950s Food programs for pregnant and lactating women and children 0–5 years old
1954 National School Meals Program (Programa Nacional de Alimentação Escolar or PNAE), administered by the Ministry of Education.
1964 National Children’s Welfare Foundation (Fundação Nacional de Bem-Estar do Menor or FUNABEM)
1972 National Food and Nutrition Institute (Instituto Nacional de Alimentação e Nutrição or INAN)
1973 First National Food and Nutrition Program for Mothers and Infants (Programa Nacional de Alimentação e Nutrição para o Grupo Materno-Infantil or PRONAN I)
1975 Nutrition in Health Program (Programa de Nutrição em Saúde or PNS), administered by INAN.

1976 Second National Food and Nutrition Program for Mothers and Infants (PRONAN II)

1977 Complementary Food Program (Programa de Complementação Alimentar or PCA), administered by the Brazilian Aid League Foundation (Fundação Legião Brasileira de Assistência or FLBA).

1977 Workers' Meals Program (Programa de Alimentação do Trabalhador or PAT)

1985 Nutritional Supplement Program (Programa de Suplementação Alimentar or PSA), administered by INAN.

1986 National Milk Program for Needy Children (Programa Nacional de Leite para Crianças Carentes or PNLCC), administered by the Special Secretariat for Community Action (Secretaria Especial de Ação Comunitária or SEAC).

1986 Schoolchildren's Sibling Meals Program (Programa de Alimentação dos Irmãos dos Escolares or PAIE), administered by the Foundation for Student Aid (Fundação de Assistência ao Escolar or FAE).

Health

1930 Creation of the Ministry of Education and Health

1937 National Service for Yellow Fever

1939 Malaria Service of the Northeast

1942 National Public Health Service (Serviço Nacional de Saúde Pública or SESP)

1953 Ministry of Health

1956 National Department of Rural Endemic Diseases (Departamento Nacional de Endemias Rurais or DNER)

1971 State Pharmaceutical Enterprise (Central de Medicamentos or CEME)

1974 Social Development Support Fund (Fundo de Apoio de Desenvolvimento Social or FAS)

1976 Program for Interiorization of Health and Sanitation Services (Programa de Interiorização das Ações em Saúde e Saneamento or PIASS)

1977 National Health Insurance Institute (Instituto Nacional de Assistência Médica Previdenciária or INAMPS)

1984 Integrated Health Programs (Ações Integradas de Saúde or AIS)
1987 Unified and Decentralized System of Health Care (Sistema Unificado e Descentralizado de Saúde or SUDS)

1988 Unified System of Health Care (Sistema Unificado de Saúde or SUS)

Education

1930 Ministry of Education and Health

1931 Francisco Campos Reform—higher education.

1931 Reform and organization of secondary education.

1934 National Education Plan established.

1934 State Council on Education—established the allocation of resources for education.

1937 Constitution decided on Federalism; emphasis on manual labor; end of allocation of established resources in 1934.

1942 Capanema Reform—organized secondary education.

1942 National Service of Industry (Serviço Nacional de Aprendizado da Indústria or SENAI)

1946 National Service of Commerce (Serviço Nacional de Aprendizado do Comércio or SENAC)

1946 Organic Laws of General Secondary Instruction and Technical (Industrial, Commercial, and Agricultural) Instruction

1953 Ministry of Education

1961 Law of National Education Policy and Guidelines

1961 Federal Council on Education

1964 Educators' salaries.

1968 University reform.

1970 Brazilian Movement for Adult Literacy (Movimento Brasileiro de Alfabetização de Adultos or MOBRAL)

1971 Law of Primary and Secondary Education Policy and Guidelines

1972 Textbooks.

1982 Suppression of compulsory professional formation at secondary school level.

1983 João Calmon Amendment

1985 Education program for everyone.
Housing

1930s & 1940s Retirement and Pension Institutes (IAPs) finance housing for their members.

1946 Low-income housing foundation.

1964 Housing Finance System (Sistema Financeiro Habitacional or SFH)

1964 National Housing Bank (Banco Nacional da Habitação or BNH)

1966 Housing Companies (Companhias de Habitação or COHABs) of BNH

1973 National Low-Income Housing Plan (Plano Nacional de Habitação Popular or PLANHAP)

1975 Urban Lots Financing Program (Programa de Financiamento de Lotes Urbanizados or PROFILURB)

1977 Program for Financing the Construction, Completion, Extension, or Improvement of Housing in the Social Interest (Programa de Financiamento da Construção, Conclusão, Ampliação ou Melhoria da Habitação de Interesse Social or FICAM)

1979 Program to Eradicate Substandard Housing (Programa de Erradicação da Sub-Habitação or PROMORAR)

1984 João de Barro Program for financing of construction by occupiers.

1986 BNH incorporated into the Federal Economic Savings and Credit Bank (Caixa Econômica Federal or CEF).

1988 Low-Income Housing Program developed by the private sector (Programa de Habitação Popular desenvolvido pelo Setor Privado or PROHAP)—private sector participates in low-income housing projects through civil construction companies.
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ECLAC (Economic Commission for Latin America and the Caribbean). See CEPAL.


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