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Exceptionality and Paradox in Brazil: From Minimum Income Programs to Basic Income

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Summary: This article reflects upon probabilities for the progressive implementation of a Basic Income in Brazil and presents a proposal for the Brazilian context. It considers short to medium-term prospects within the context of a lack of tradition in universal protection policies. Although a law approving the right to a basic income becomes effective in 2005, Brazilian social policies are increasingly focused on multiplying means-test income transfer programs while conditioning them to a proven lack of resources and targeting only the very poorest segments of society for a limited period of time. Such is the case with the *Bolsa-Família* program, which is at the forefront of the federal government's agenda. As planned for the coming years, macroeconomic stability and fiscal policies likewise provide precious little room for the introduction of universal policies. Tax reform has been approved without debate as to what might be the most appropriate mechanisms for generating income redistribution nor financing universal schemes. Although they are paradigmatic, minimum income programs directed at the poorest are riddled with contradictory proposals. They represent a piecemeal approach and turn out to be dissociated from policies of *de facto* income guarantee with anti-cyclical and redistributive effects – a constitutive, albeit far from exclusive, element for a system of universal social protection in Brazil.

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In yet another one of the countless paradoxes that are the scourge of our political identity, Brazil has affirmed its exceptionality by legalizing the principle of a universal basic income for all its citizens, regardless of their social origin, income level, sex, age, religious beliefs or any other criteria distinguishing social groups. The American state of Alaska excepted (where royalties from oil exploitation *de jure* and *de facto* guarantee all residents an income of equal value), no other country in the world besides Brazil – not even those where inequality is incomparably less than among us – has gone so far in its commitment to social justice.

Our exceptionality is such that ratification of the law of January 8, 2004 (n. 10.835), authored by Senator Eduardo Suplicy, which institutes a basic citizens' income, would appear not to have received adequate attention, considering its absolute uniqueness within the international context and in the light of the evolution of Brazil's social security system, which moves counter to the principles of universality that presided over the Social Security reform of 1988[3]. It is still widely assumed that the law should be interpreted as a personal victory for the Senator, a result of his perseverance and obsession in the defense of basic income.

In a country where universalism is currently at risk on account of macroeconomic imperatives; where the over-targeting of social expenditure is seen as the only means of reducing inequality and expanding citizenship; where 80% of direct income transfers are contribution-based, essentially retirements and pensions, and under widespread criticism because they reflect a regressive structure; and where only 2,2% of these are compensatory benefits, subject to a variety of conditions, destined to a small percentage of the tens of millions that make up the country's poor, it is astonishing that, as of 2005, we will be adopting basic income as a universal and unconditional right for all those who, whether Brazilian or not, live legally in the country[4].

By law, a monetary benefit of equal value will be given to all, which "may be done in equal and monthly installments"[5] and will be "sufficient to take care of each person's minimum expenses[6] with food, education and health, taking into consideration the country's level of development and budget possibilities"[7]. Paragraph 1 further specifies that such a right be implemented "in stages", "at the discretion of the Executive Branch, giving priority to the neediest segments of the population". However, no reference is made to deadlines for universal coverage, which leaves the door open to a variety of risks and interpretations. In other words, the law is explicit as to the fact that selectivity criteria will be considered, from the outset, in order to favor the neediest, a

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[3] Brazil adopted a new Constitution in 1988 which abolished the previous one drafted under the military regime.
[4] Foreigners with a minimum of five years' residency in the country are entitled in to the benefit.
[5] § 3º
[6] The Bill explicitly refers to "expenses" rather than "basic needs".
[7] § 2º.

directive frankly at odds with the principles of a citizen income which, because it is unconditional, does not conform to criteria of socio-economic eligibility.

The current scenario raises suspicion that such a law might never be enforced – a fact that would come as no surprise. What is currently at stake in Brazil is precisely the nature of its social security system, one that has become increasingly residual, a mixture of conditional and highly restricted access running counter to the universalist-redistributive spirit of social reform that led to the establishment of Social Security in 1988 and which inspires and legitimizes a basic income for citizens. In other words, the institutional-formal framework that was created to consolidate a solid system of social protection and guarantee principles of social justice seems less and less to correspond to accepted everyday practice in the struggle against misery and poverty subordinated, instead, to the political rules of macroeconomic stability and generation of incredibly high primary surplus at the expense of social spending (both investments and current expenditures).

This article proposes to discuss ways to face the challenge of moving from the absence of universal policies of income transfer in Brazil towards the adoption of an unconditional basic income, considering the imminent implementation of Law 10.835 in January, 2005. To this end, we shall present possible designs for a policy to be gradually implemented and supported by simulations that measure the impact of such transfers in the reduction of poverty and inequality, and which were made by taking different parameters into account.

1. International experiences

A series of academic articles written in 2002[8] analyzes the likelihood of the adoption of the transition to basic income in some European countries. They reveal important restrictions of several kinds to this principle of social justice, despite the fact that these are predominantly Welfare State countries in which means-test target programs possess marginal weight[9], figuring only as a complementary mechanism in the array of initiatives to alleviate poverty and social exclusion. Nor would consolidated experience with guaranteed minimum income programs over the last twenty years (whose implementation is currently highly recommended by the European Union to all its member-countries) appear to be sufficient guarantee of the almost mandatory transition towards an unconditional basic income.

[8] Unpublished until 2003, and currently available only in mimeographed versions

[9] Only Ireland and England have become exceptions, as the proportion of targeted income transfers subject to verification of family income and other conditions represented, in the year 2000, respectively 25,7% and 15,4% of direct monetary benefits. In other countries of the EU this percentile is usually less than 12%. See also Table 5 of the article by Lavinas L. and Garson S. (2003). Gasto Social no Brasil: Transparência sim, *parti-pris*, não. In *Econômica* v.5, n. 1, June, 2003, Rio de Janeiro, p. 145-162.

Vanderborght[10], for instance, considers it unlikely that the idea of basic income will be adopted in Belgium and Holland, despite acknowledging that in no country besides Holland was debate on the subject as intense and as enlightening, the subject having been on the social agenda for 25 years. To his mind, restructuring the social security system in these two countries has clearly strengthened the activation policies, that is, programs that require counterparts, whether on the welfare front or as regards unemployment-insurance. Even so, a sufficiently generous and universalist welfare system remains. Although he recognizes that the guarantee of income is one of the major concerns of Social Security in both Holland and Belgium, Vanderborght identifies four major obstacles[11] that lie in the path of an unconditional universal income, the greatest of these being of a moral or ideological order, that is, the refusal of societies to break with the work ethic and dissociate income from economic activity. "[…] the moral objection to Basic Income arises from a largely shared conception of justice which states that every able-bodied person should work to cover her basic needs" [12]. He recognizes, however, that fiscal and financial aspects are not the central element in counter-argumentation. From the perspective of public accounts, there would be a way to finance such a right. In Brazil, the debate centers precisely on the budget constraints that prevent financing of such a program.

In his analysis of the French case, Serge Paugam[13] also discards the possibility of adopting unconditional income in spite of the RMI [Revenu Minimum d' Insertion]'s 15 years[14] of good results in regulating social relationships. It attributes such success to two principal reasons: "The first concerns changes in social action. The RMI has reinforced the ways of taking care of poverty on a local level and encouraged partnerships between institutions. It has provided an answer to the limits of the Welfare State by widening the scope of solidarity to other players, in particular local authorities and associations. The second reason concerns the solutions proposed to beneficiaries to try to avoid the contradictions of assistance and encourage them to take part in economic and social exchanges" [15]. Nonetheless, other problems persist, among them monetary adjustment of the RMI benefit, whose value remains below that of the rest, on a level that falls short of covering the actual income gap. Within the context of economic recovery and the prioritizing of unemployment reduction, Paugam deems it unlikely that the income be instituted by law, at least in the short or medium range.

In Ireland, where the social security system already provides cash transfers to the unemployed and other underprivileged groups pending proof of insufficient income, as

[10] Vanderborght Y. (2002) "Basic income in Belgium and the Netherlands: Implementation through the back door? Mimeo, 39 pages. E-mail: vanderborght@etes.ucl.ac.be.

[11] The other three obstacles are: i) opposition from unions against the adoption of a universal income which might jeopardize their traditional role as representatives (the greater autonomy of individuals with regard to their working conditions); ii) the proposal appears as an intellectual utopia, unsupported from a political-electoral standpoint – basic income would become a weak electoral strategy; iii) to be considered radical and therefore a threat to the traditional, existing system of social security.

[12] Vanderborght Y. (2002). Op. Cit. Page 30.

[13] Paugam S. (2002). The RMI in France: the limits of a progressive social policy. Mimeo, 21 pages.

[14] The RMI law was approved in 1988.

[15] Paugam S. (2002), op. cit page 11.

well as to other groups (such as children) on a more universal scale, public debate about citizen's income imposed itself[16] since, despite the economic boom, poverty and inequality have all grown. Healey and Reynolds[17] describe the outline of this debate and the subsequent polarization "between a Basic Income system and conventional tax/welfare options as a trade-off between greater equity and risk of lower economic growth versus less equity and less risk to higher economic growth"[18]. In 2001, the choice privileged a refundable tax credit scheme that benefits low wage workers, children and the elderly (65 yrs and older).

The lesson learned from these three national experiences shows that, in countries where conditions exist for the expansion of a set of rights based on principles of social justice, it seems difficult, at least under the present circumstances, to construct a consensus within society and create a political-partisan coalition able to implement such a right.

In Brazil, on the contrary, President Luiz Inácio Lula da Silva`s election brought the debate on universal income back to the table, something which, in turn, led to the projected law's final ratification after the eleven years it spent buried in Congress.

The paradox among us is patent. It lies in the fact that we are a country in which the universal coverage of social policies is, in practice, non-existent, although certain areas such as health – the only exception – preserve a universalist scope in the midst of a dynamics of dismantling public services and budgetary restrictions that are incompatible with the legal scope of coverage and care for all. Running counter to this, Brazil is widely implementing means-test schemes[19] based on strong, strict conditionalities in the name of greater efficiency in public spending. As is known, targeting tends to be counterproductive, for it increases the risk of administrative inoperativeness (because levels of coordination are weak) and inefficiency (with high managerial costs because of control routines), in addition to fomenting fraud and tax evasion. Anti-poverty schemes, whether federal or local, whatever their financial sources and (rarely identified)

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[16] For over 25 years, universal income has been discussed in Ireland, its adoption having been repeatedly rejected because of high costs (untenable tax increases) verified in a number of studies, and also because of its difficult implementation. Only in the late 1990s, with the creation of a Working Group on the Integration of the Tax and Social Welfare Systems, whose final report was published in 1996 and, more recently, in 2000, with the Working Group on Basic Income (final report published in 2001) did the subject achieve central status in public debate.

[17] Healey S. and Reynolds B. (2002). From Poverty Relief to Universal Entitlement. Social Welfare, Minimum Income and Basic Income in Ireland. Mimeo, 34 pages.

[18] Healey S. and Reynolds B. (2002). Op cit, page 21, describing the conclusions of the Working Group on Basic Income in the Final Report published in 2001. Report on the Working Group on Basic Income (2001), Dublin, Department of Taioseach.

[19] This is the case of the Bolsa-Família Program, the largest Brazilian anti-poverty means-test scheme, launched under President Luís Inácio Lula da Silva in 2003. Current Brazilian debate points out the ineffectiveness of the many controls required by the State as conditions to ensure a minimum income for indigent families. Daily press reports that most families continue to receive the stipend, in spite of the fact that school attendance is not regularly reported to the Ministry of Social Development,. The Federal Government acknowledges its own inefficiency and has committed itself to improving control over recipients by means of more extensive, in-depth records. See, for instance, coverage in *O Globo* and *Folha de Sâo Paulo*, September 8-11, 2004.

objectives have almost replaced the commitment towards universalism agreed upon by Brazilian society in 1988.

2. Extent and profile of direct income transfers in Brazil

During the second half of the 1990s, safety nets targeted for the poor became the big novelty in Brazilian social policy. Prior to this, poverty relief programs provided transfers in kind (milk programs and food baskets)[20] . The change in the scope of social policy and the design of compensatory schemes initially took place as a consequence of the 1988 Constitution which assured individual welfare benefits in the amount of one minimum wage under the Lei Orgância de Assistência Social [aka LOAS, the Organic Law of Social Assistance] to the elderly[21] and the disabled with a per capita family income equal to or less than ¼ of the minimum wage[22].

The last ten years have witnessed surprising progress in the provision of this benefit. Up until 2002, 570 thousand elderly and 958 thousand disabled individuals have been entitled to LOAS benefits, to the amount of R$ 3,5 billion or the equivalent of 25,3% of the Federal Government's expenses with social assistance[23] and 1,75% of social spending on the whole[24]. Such coverage falls short of the effective demand. This is because it is quite difficult to qualify for the LOAS, also known as Continued Social Assistance Benefit [BPC], which is by no means automatic. It implies providing evidence of poverty, a practice currently contested by many Brazilian municipalities[25] which refuse to provide "poverty certificates" that are often required as means of proof. In point of fact, the INSS [Social Security Services] is the first instance in recognizing the right to the LOAS benefit. When the INSS turns down the petition, the local Departments of Social Welfare frequently come into play to deliver a certificate based on a socio-economic report, to be forwarded to the INSS. The decision then takes on legal status, all of which translates into considerable time and expense. Once the request has been deferred, entitlement to the benefit becomes definitive and irrevocable.

In addition to the LOAS benefit, other income transfer schemes in force through the end of the Cardoso's government in 2002 were means-tested and temporary, providing stipends[26] to specific clienteles as may be seen in Table 1. In addition to being

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20 Regular benefit.
21 Above 67 years of age, reduced to 65 years of age as of 2004.
22 At the time, an effort was made to adopt the BPC poverty line as half the minimum wage per capita, which would inevitably and significantly increase the number of beneficiaries. Thus was the indigence line of one fourth the minimum wage per capita adopted.
23 Ministry of Finance, Department of Economic Policy (2003). Gasto Social no Governo Central. In *Econômica* v.5, n. 1, June, 2003, Rio de Janeiro, p. 39-40, table 5.
24 Estimated in the Ministry of Finance document at R$ 204 billion in 2002 (table C of the annex)
25 As an example, it is worth noting that the Department of Social Welfare of the Municipality of São Paulo prohibited provision of the certificate of poverty under the allegation that it was considered degrading. Nonetheless, in most Brazilian municipalities (5,600) this practice is widespread.
26 The stipend expresses a kind of incentive to the regular schooling of children, measured against a mandatory attendance rate of 90%

conditioned to certain requirements such as mandatory school attendance for children aged 6-15, the benefit was granted for one year, renewable for one additional year only, providing the situation of destitution remained.

Table 1

WELFARE PROGRAMS FOR THE POOR (CASH TRANSFERS) 2002

Program	Ministry	Goal	% Social Expenditure TOTAL*
1. School Grant	Education	School grant worth R$ 15,00 - R$ 45,00 for destitute families with children aged 6-15 who attend school	0,78
2. Food Stipend	Health	Monthly stipend of R$ 15,00 - R$ 45,00 for destitute families with pregnant women or nutritionally imperiled children ages 0-6 years	0,07
3. Program for the Eradication of Child Labor	Welfare and Social Assistance	Monthly school grants of R$ 25,00 – R$ 40,00 for poor families who commit to removing their children from hard labor in order that they may return to school	0,25
4. Young Agent	Welfare and Social Assistance	Monthly school grant of R$ 65,00 to the underprivileged young aged 15-17 at risk who become active in their communities	0,02
5. Income Grant	National Integration	Monthly grant of R$ 60,00 to poor families vcitims of the Northeastern drought	0,04

		who keep their children in school	
6. Energy Consumption Grant	Mining and Energy	Monthly aid of R$ 15,00 to needy families for GLP acquisition	0,31

Source: Ministry of Finance, Department of Economic Policy, 2003.
*** Total value of Federal Social Spending for 2002: R$ 204,2 billion or 15,16% of Gross Domestic Product.**

In 2002, these distinct varieties of schemes, for the express purpose of fighting poverty {see table 1), represented only 1,47% of the Brazilian social spending, the median value of the transfer remaining somewhere in the area of R$ 40,00[27] (equivalent in 2002 to 23% of the national minimum wage).

By adding the two great compensatory policies[28] – the LOAS and the welfare programs – based on cash transfers, though different (the former is permanent and the latter temporary), it may be observed that they total a little more than 3% of federal spending, which corresponds to approximately R$ 6,2 billion in 2002. Were we to divide these resources by the estimated number of the poor, which varies in proportion between 30 and 33% of the Brazilian population[29] (i.e. 55 million people), the monthly per capita value of compensatory cash transfers would have been equivalent to R$ 9,39 – in other words, an unquestionably low amount (roughly 30 Brazilian centavos or the equivalent of 10 USD cents a day).

Considering the non-existence in Brazil – in that year, today and always – of any universal benefit designed to reduce the acute gap between well-being and income among all Brazilians to foment equality and equity, there is no way of not recognizing that very little was ever spent – or is still spent – on direct, non-contributive cash transfers to the most needy. The problem is not merely (as some people would have it), one of misallocated funds. Except for LOAS benefits, in the amount of one minimum wage, whose effects upon poverty reduction have already been highlighted, the others, of a far lesser value, had practically no impact upon poverty and inequality. In other words, it would be necessary to spend much more in order to drastically and significantly reduce poverty and inequality in Brazil! Currently fixed at a very low level, the individual amounts of the transfers must be increased, given the discrepancy of the overall picture. The Gini index, for instance, has been estimated at 0,587 (based on PNAD[30] 2001). Similarly, the potential demand must be met and, therefore, coverage further enhanced to prevent competition among the poor.

[27] With the minimum wage then being R$ 180,00, the R$ 40,00 benefit corresponds to roughly 23%.
[28] We have deliberately chosen not to include the rural pension system here, as we consider it to be different in nature, insofar as it is not linked to proof of rural employment or a family farming regime.
[29] Source: IPEA.
[30] Brazilian National Household Survey (national sample, carried out an annual basis).

The challenge lies in introducing, on the occasion of the launching of the universal income as a citizen's right, a new model for the transfer of direct cash income that may be truly progressive and redistributive and overcome residual policy approaches, based on the definition of specific clienteles, according to principles of selectivity.

The principal social program in the second year of Luiz Inácio Lula da Silva's government, the Family Cash Grant [or *Bolsa-Família*] nonetheless is wanting in this orientation. Markedly selective, it nonetheless promotes some changes in the design of compensatory programs, seeking to conclude the earlier unification of what was purportedly a system of direct cash transfers in order to improve the coordination and management of the various anti-poverty programs. In this process, the *Bolsa-Família* goes on to centralize the resources allotted to other programs, struggling against the fragmentation of social welfare policies, in addition to slightly expanding its budget allotment. The value of the average monthly benefit to families rises to R$ 72,80[31]. The forecast for 2004 is that over 5 million families will become beneficiaries (of a total estimated at 11,2 million families identified as poor according to federal government statistics).

It therefore results that the regulatory mark for facing the social issue in Brazil remains symptomatically unchanged – Actually, 60 cents out of every Real are being transferred daily to each member of a given beneficiary means-test approach prevails, combined with low levels of benefits. family (considering the average to be made up of four people), as an additional income.

What is novel about Senator Suplicy's proposition[32] is that it attempts to establish a rule of transition from direct income transfer schemes to a policy of citizen income consonant with the new law. It advocates that the *Bolsa-Família* Program be immediately extended to its potential target-group (11,2 million families), by providing an individual benefit of R$ 40,00 to each member of each one of the selected families. Thus, the family benefit would be substituted by a theoretically universal benefit though given only to those families that qualify, to wit: a per capita family income below R$ 100,00/month[33]; detailed registration according to recorded declaration of goods, which allows inference as to whether possessions are compatible with declared income; mandatory of the counterparts required for continued inclusion in the program. This proposition implies an annual expense of R$ 25 billion[34], which is to say five times greater than the estimated budget for the *Bolsa-Família* in 2004 (R$ 5 billion).

The point we would like to make is that it is necessary to identify the most appropriate design by which to move from minimum income schemes to a basic income. In order to estimate the impact of the design of Suplicy's proposal on reducing poverty

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[31] Which corresponds to approximately USD 25 (exchange rate 1 USD = R$ 3.00) per month.

[32] Published in the newspaper **O Globo** of 06/01/2004. It diverges from Suplicy's original proposition, which pretended to begin implementing citizen income by focusing initially on the elderly population to later incorporate progressively the younger generations (order by decreasing age).

[33] Poverty line for August, 2004.

[34] Administrative costs have not been taken into consideration here.

and inequality – highly relevant vectors in any program or policy that intends to efficiently fight poverty – we simulated for the year 2001 a transfer of R$ 30,00 per month[35] for the first 11,2 million families living at the bottom of the distribution. We considered the poverty line to be a per capita family income equal to or inferior to half a minimum wage (minimum wage being the standard reference in Brazil). The results reveal: (i) that the Gini index would fall from 0,587 to 0,546, with direct, beneficial effects to up to the fourth decile of distribution (table 2), (ii) that the number of the poor was reduced by 18,5 million people and (iii) that the income share of the poorest 20% over that of the 20% richest would increase from 3,1% before transfer to 6.3% after transfer. There can be no doubt that these are excellent results, previously unseen in any social program ever tried in Brazil.

Unfortunately, what we are discussing is an *ideal* performance, one that would be possible only if targeting were perfect, devoid of leaks, fraud or high levels of horizontal and vertical inefficiency, problems widely acknowledged by the government itself[36]. Nothing could be less likely, since the operation and implementation of a strongly selective scheme would imply multiplying controls which would, in turn, increase administrative costs and eventually misappropriate resources. All these aspects are radical and absolutely contrary to that which is defined as citizen's income, whose fundamental and inalienable principle is precisely its unconditionality. It is hard to believe that the best shortcut for achieving universal unconditionality might be the opposite direction, whose trail imposes means-tests and counterparts, in addition to penalizing beneficiaries whose per capita family may vary positively for a while. These would have to be discontinued unless new criteria could be established to regulate such variations, which tend to generate new inefficiencies.

3. Starting with a universal benefit for all children

Could, then, another model escape the fatalistic logic which holds that universalism means regressive distribution and that the only way out is through selectivity?

In order to visualize distinct scenarios with their respective costs and impacts, we have organized simulations with different target-groups and benefit amounts. A synthesis of these exercises may be found in table 4, below, after a few necessary methodological explanations.

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[35] When we began our simulations in April, 2004, the minimum wage was R$ 240,00/month. The monthly income of R$ 40,00 proposed by Senator Suplicy was then equivalent to 16,67% of the minimum wage. Because we used fiscal year 2001 for our simulations, we applied the same proportionality to that year's minimum wage (R$ 180,00) which, at that time, would have resulted in a monthly income of R$ 30,00. Hence the simulations that refer to the Suplicy proposal having been made with a benefit of R$ 30,00 per individual.

[36] On this subject, see *O Gasto Social do Governo Federal* (2003), issued by the Secretariat of Economic Policy at the Ministry of Finance.

We took two target groups which might alternately be the first beneficiaries of a basic income policy of progressive implementation. These were children (aged 0-16 years) and the elderly (over 65 years of age), because both are inactive and, for this very reason, socially vulnerable categories. We know that social protection has been instituted in the search for security among those who are unable to work. In 2001, there were 54,4 million children in Brazil that belonged within this age group and only 10,2 million elderly. In and of themselves these numbers show that starting with the children would be more encompassing and inclusive, and would provoke a much more significant impact.

According to table 2, below, children are over-represented in the first tenths of distribution, their participation decreasing proportionately in the higher tenths due to demographic and socio-economic reasons. As for the 65+ year-olds, it is marginal in the first deciles and visibly increases in the last two (table 3). This clearly demonstrates that children are a group which is extremely needy of social protection, for they are the majority in the poorer strata of the population. As a matter of fact, there are no family and/or children and youth support programs which, similarly to what occurs in European countries[37], might assure income transfers to reduce vulnerability and equal opportunity. The elderly, on the other hand, have benefited from important improvements within the social security system, such as universal access to rural retirement benefits and pensions, regardless of prior contributions, a LOAS benefit for the needy elderly, etc. It is worth noting that of the 10,2 million elderly over the age of 65, only 9% declared personal income equal to zero. Most, therefore, have a source of income.

Table 2

PROPORTION OF CHILDREN AGES 0 TO 16 YEARS
According to Deciles of Per Capita Family Income

1 Decile	54%
2 Decile	50%
9 Decile	20%
10 Decile	17%

Source: PNAD/IBGE 2001.

Table 3

PROPORTION OF THE ELDERLY (OVER THE AGE OF 65)

[37] On this subject, see also Lavinas L. and Garson S. (2003). Gasto Social: Transparência sim, parti-pris, não! In *Econômica*, Rio de Janeiro: Revista do Programa de Pós-Graduação da Faculdade de Economia da Universidade Federal Fluminense.

According to Deciles of Per Capita Family Income

1 Decile	1 %
2 Decile	2 %
9 Decile	12 %
10 Decile	14 %

Source: PNAD 2001, IBGE

We have simultaneously stipulated fractions of the minimum wage that might serve as reference values to define basic income. Thus, we have considered current values of half a salary (R$ 90,00), one third of a salary (R$ 60,00) and one sixth of a salary (R$ 30,00).

Table 4 displays the figures before and after transfers. Thus, we have seven columns. The first one presents the average family income per capita by deciles of distribution before transfer (REAL); the others inform increased average income obtained from the attribution of a cash transfer according to a fraction of the minimum wage and to the initial target group (children, Suplicy program, the elderly).

Table 4

DISTRIBUTION (DECILES) BEFORE AND AFTER TRANSFER
Average Family Income Per Capita - BRAZIL 2001

FIPC Deciles	REAL Income	Children 90	Children 60	Children 30	Suplicy 30	Elderly 90	Elderly 60
1º	**14,06**	55,95	43,66	29,67	44,07	14,35	14,31
2º	**45,02**	88,99	74,73	59,91	75,02	45,91	45,70
3º	**68,88**	108,27	94,99	82,14	94,99	70,64	70,16
4º	**94,86**	130,89	118,47	106,43	109,45	98,01	97,25
5º	**126,01**	158,27	147,11	136,32	127,52	131,00	129,41
6º	**165,52**	190,68	182,18	173,74	165,53	171,27	169,39
7º	**214,71**	239,46	230,71	222,48	214,73	225,77	222,38
8º	**299,83**	321,56	314,10	306,85	299,88	308,04	304,63
9º	**470,56**	490,16	483,45	476,91	470,70	478,53	475,72
10º	**1.407,32**	1.423,35	1.417,92	1.412,59	1.407,86	1.416,00	1.413,00

Source: PNAD/IBGE 2001.

It may be inferred from table 4 that focusing on the elderly to start up a basic income policy has practically no redistributive impact whatsoever (particularly as regards housewives' retirement pensions, and could even be considered regressive, as a direct transfer of monetary income of R$ 90,00 or R$ 60,00 practically does not alter the average income value observed in the first deciles of distribution, aggravating the distribution pattern as we move onto the higher deciles (they are lesser in number and, besides, concentrated on much higher income brackets). Whereas the simulations that guarantee income to children ages 0-16, as well as Senator Suplicy's proposal, show results that are quite favorable. Attributed income has a proportionately greater impact on the lower deciles, particularly on the first one, vis a vis the others. The Suplicy proposal registers the best performance, associating less value of the benefit (R$ 30,00) with an increased average income in the lower deciles (from the first through to the fourth), therefore resembling that which was obtained in the simulation made with a universal benefit of R$ 60,00 targeted for children.

The effects of each combination of imputed income on the incidence of poverty, on lowering inequality and enhancing the income share of the poorest 20% all remain to be seen. Our results may be examined in tables 5, 6 and 7, below.

Table 5

People lifted out of poverty - BRAZIL 2001
(Poverty Line YFPC < 1/2 Minimum Wage)

NUMBER OF THE POOR BEFORE TRANSFER : 50.800.000

LIFTED OUT AFTER TRANSFER	
Children 90	27.415.927
Children 60	16.538.573
Children 30	7.576.437
Suplicy 30	18.580.474
Elderly 90	1.901.419
Elderly 60	1.603.127

Source: PNAD/IBGE 2001.

The number of people living below the poverty line, prior to any sort of income trasnfer, numbered approximately 50,8 million people in 2001. Table 5 shows us that, once again, Suplicy's proposal is the most effective, for it would remove from poverty (with an individual benefit of R$ 30,00) 18,5 million people, two million more than a transfer of R$ 60,00 to all Brazilian children. Results based on the population aged 65 and over have proven to be inadequate in the struggle against poverty.

It is also worth estimating how the table of inequalities could be altered by measuring variations in the Gini index derived from each proposition. Results are presented in table 6.

Table 6

REDUCTION OF THE GINI INDEX - BRAZIL 2001

	GINI
REAL	**0,587**
Children 90	0,516
Children 60	0,537
Children 30	0,561
Suplicy 30	0,546
Elderly 90	0,583
Elderly 60	0,584

Source:: PNAD/IBGE 2001.

In this case, a clear distinction may be observed as compared to the "poverty reduction" effect, since Senator Suplicy's proposal would be less effective in reducing inequality than attributing a universal income of R$ 60,00 to children in the 0-16 year age group. In fact, in the first case the Gini estimated before transfers at 0,587 would drop to 0,546, whereas the second case would present a sharper decline to 0,537.

Finally, it remains to calculate the proportion by which the poor would enhance their participation in the aggregated income, according to the transfer of basic income. In this exercise, we repeated the same groups and classes of benefits used in the previous ones. Thus it may be observed (as indicated in table 7) that, in 2001, and before transfers, the income share of the 20% poorest represented nothing more than 3,1% of the income of the 20% richest. Adoption of the Suplicy proposal or of universal income for children in the value of R$ 60,00 would allow such participation to be doubled. It would then be 6,2%, a significantly better yet, nonetheless, terribly unsatisfactory percentile. It is frightening to realize how bold new propositions for the allocation of resources to a degree previously unheard-of in this country might produce such a modest impact upon income redistribution. Table 7 shows that a universal benefit of R$ 90,00 or half a minimum wage (values for 2001), conceded to 54,4 million children (ages 0-6 years) would add less than might be expected to redistribution. The redistribution of income in Brazil would appear to be an almost impossible mission.

Table 7

Income share of the 20% poorest over the 20% richest - BRAZIL 2001

Share	%
Current 2001	**3,1%**
Children 90	7,6%
Children 60	6,2%
Children 30	4,7%
Suplicy 30	6,3%
Elderly 90	3,2%
Elderly 60	3,2%

Source: PNAD/IBGE 2001.

What is the cost of each proposal and, therefore, what is its economic viability in an economy dominated by fiscal rigor and by the government's commitment to increasing its primary surplus in order to repay the debt?

Table 8 contains the figures for financing each proposal. It would obviously be relatively inexpensive to begin implantation of basic income with the elderly, as initially proposed by Senator Suplicy at the start of his crusade. With R$ 11 billion per year, a monthly benefit of R$ 90,00 could be transferred to those over 65 years of age. However, its impact upon the reduction of poverty and inequality would be practically non-existent. From a financial standpoint, the most interesting alternative would be the most inadequate from a redistributive standpoint – to assure a retirement pension of one minimum salary to the 190 thousand poor housewives at a cost of R$ 410 million a year. Consequently, spending little (and not only badly) limits the extent (reach) and the effectiveness of redistributive policies. Any per capita transfer should be compatible with the degree of destitution of the needy population and the widest possible inclusiveness of the population in order that large-scale macro-economic effects be obtained.

The proposition of greatest redistributive impact has proven to be extremely costly. To guarantee all Brazilian children with a monthly basic income of R$ 90,00 would mean an annual disbursement of roughly R$ 59 billion, an amount equal to all individual income tax collected in 2001. In other words, it is extremely difficult to attempt the redistribution of income in Brazil. In order to achieve this goal, a combination of will, competence and determination in the formulation of universal policies are needed.

Table 8

Direct Annual Cost* of Each Proposal
BRAZIL 2001

TARGET GROUP	TOTAL COST R$
Children 90	58,7 billion
Children 60	39,2 billion
Children 30	19,6 billion
Suplicy 30	19,4 billion
Elderly 90	11 billion
Elderly 60	7,3 billion

***OBS: direct income transfers**

Considering its effects and costs, and the unconditionally universalist vision which guides its values of social justice, we deem the most adequate proposition to the introduction of basic income in Brazil to one that provides all Brazilian children with a monthly benefit of R$ 60,00. This would reduce poverty by one third, leading to an expressive drop in the Gini index, the like of which was unseen in this country for decades, and allow the income share of the poorest 20% to double vis-à-vis that of the richest 20%. Moreover, it would enforce a mechanism of universal protection to a social group which was never a social policy target of any consequence at all. It is a known fact that supporting children and youth contributes directly not only to reducing child labor but also permits the partial decommodification of significant expenses taken on by Brazilian families, and especially by the poorest ones, with the education of their children. We would thus be living up to our republican commitment to building a just welfare society.

Another advantage of this transitional model would be the generation of a mechanism of coverage expansion, for each year would bring the incorporation of those born in the fiscal year of reference. In other words, those 16 years old and under receiving basic income would never be deprived of this right, which would follow them irrevocably throughout their lives. This would also facilitate a relatively secure and consistent planning of annual additions to the cost of the program as well as monitoring the sources necessary to its financing.

4. Possibilities of financing

The inevitable (and hitherto unanswered) question is how to go about financing a proposal of this nature based on the reallocation of pre-existing resources, since no one could seriously envisage creating new taxes in a country where the tax burden had reached 38,11% of the GDP (estimated mean for 2004 according to the Federal Government).

What would a full-scale implementation of this proposal (direct costs only) cost if annually projected additional expenses for coverage were not taken into consideration?

In order to calculate this, we re-estimated the number of children entitled to a basic income in 2001 and adjusted that to the population growth rate over the period 2001-2004 (5%). The universe of potential beneficiaries would total 56,7 million in 2004. It also became necessary to adjust the benefit amount (R$ 60,00 or 1/3 of the 2001 national minimum wage) to current values, which would be equivalent to R$ 80,00[38]. This would bring the total direct cost for starting up basic income to R$ 54,6 billion in 2004.

These are alarming figures in a country accustomed to financing social welfare residually, yet they give us a clear idea of the distortions that affect the needy as well as the lack of protection and absence of universal policies that characterize Brazil. Living up to such a challenge would appear to be almost impossible. As a universal, unconditional benefit, basic income would seem to belong within the scope of fiction.

How to obtain receipts and resources to fund such a program?

According to government estimates, predicted expenditures with means-test programs in 2004 (programs that would be discontinued because they would be compensated by a universal policy dedicated to children and youths) would total R$ 11,5 billion (including the *Bolsa-Família* which, alone, is budgeted at R$ 5 billion).

The provision of an unconditional, universal benefit to children and youths of all social classes would justify the suppression of tax exemptions with education[39], seeing as how they would be partly compensated by the benefit itself (therefore promoting a redistribution of income). Something in the area of an additional R$ 1 billion would be obtained for financing, in addition to favoring mechanisms of cohesion and reciprocity. This would apply to all families with children, not only to those able to deduct expenses with private education and the like, precisely because they are better off.

Another possible source of funding would be suspension of the DRU (Desvinculação da Receita da União) referring to the Social Security budget surplus. The DRU mechanism reduces in 20% the earmarking of some Federal Government revenues from taxes and contributions for social expenditures, thus negatively affecting social programs by diverting to other fiscal accounts funds that should have been directed to them. In so doing, the DRU contributes to the accumulation of the Federal Government primary budget surplus. In 2004, this represents a significant figure, R$ 46,5 billion (out of the Social Security Budget, which totals R$ 233 billions), also a reflection of increased

[38] Minimum wage for April, 2004, having been R$ 240.00.
[39] As of 2004, the Secretariat of National Treasury has abolished individual tax exemption for dependents.

collection from some sources of revenue of the Social Security System, such as COFINS (whose collection has been estimated for 2004 at R$ 79 billion against R$ 59 billion collected in 2003). With this, the Social Security budget surplus should expand its participation in the DRU pot, while social spending (current costs and investment) continues frozen.

Similarly, a reduction of the Central Bank *prime rate* in the economy (named the SELIC interest rate), would allow for a significant decrease in expenses with payment of services on the federal public debt, making it possible to co-finance the implementation of Basic Income. The impact of such a measure may thus be estimated. To this end, we considered the stock of the internal federal public debt harnessed to interest rates on indexed government bonds[40], which reached R$ 513 billion in May, 2004. Allowing for a SELIC[41] reduction from 16 to 14%, the annual service on the debt would decrease by R$ 10,2 billion. A more significant reduction (to 12%) would lead to making R$ 20,5 billion available for the financing of other, markedly social expenditures.

It is thus extremely difficult, though not altogether impossible, to mobilize existing resources – whether contingent, "diverted" from the social budget, or predictable (derived from reduction on the interest rate, in an order of importance the variation of which would allow for the introduction of the proposed model for starting up basic income in Brazil. In order for this to work, the country's present priorities would have to be redefined in order to re-establish the social budget, which is currently in thrall to monetarist orthodoxy.

Nor should the economic impact resulting from the implantation of the basic income proposal be disregarded, as it could generate more revenue. Based on data from the National Accounts System (IBGE 2002) and on Leontief's Input-Output Product Matrix, we can estimate the direct and indirect impacts of the increase in final consumption of the beneficiary families , through the guarantee of a universal income of R$ 80,00/month to all children aged 0-16 years. Such impacts, distributed across the matrix's 42 sectors, would create 2,3 million new wage jobs (a number large enough to incorporate the contingent of workers that annually enters the Brazilian labor market), increasing total wages and salaries by R$ 10 billion. Finally, the recovery of economic growth which has returned to the national agenda as a priority, through policies and programs, would provide the necessary sustainability to the maintenance and expansion of this proposal.

Universalism can pay off, even in a country as unstable and uneven as Brazil. Despite circumstances that strongly discourage the implementation of genuinely redistributive policies, rarely have we been as close to instituting something truly new

[40] Brazil currently issues, both through the Treasury and the Central Bank, several types of domestic indexed debt. The two main instruments for this are, respectively, bonds whose coupon and redemption value are linked to the exchange rate, and medium-term borrowing whose interest is equal to the short-run interest rate plus a spread.
[41] SELIC is roughly equivalent to the US Federal Reserve's prime rate.

and of consequence in this country. Now is the time to do so. To waste this opportunity may entail even higher costs to Brazil.

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