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## The Controversial Brazilian Welfare Regime

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

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### **Alternatives from and for the Global South**

This paper is part of a series of outputs from the research project on New Directions in Social Policy: Alternatives from and for the Global South.

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

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## Contents

Acronyms .....	iii
Acknowledgements .....	iii
Summary.....	iv
Introduction .....	1
Social Protection System and its Financing in Brazil .....	4
Social assistance: safety nets for the neediest .....	6
Social insurance .....	8
The Unified Health System: universality under fire.....	11
Taking stock .....	13
The Macroeconomics of Inclusion via Consumption.....	15
The covenant for growth”: social policy off the radar (1950-1980).....	15
The “liberal covenant”: social security thwarted (1981-2003).....	16
The “covenant for growth with mass consumption”: social policy as collateral (2004-2014).....	18
The functionality of social policy as collateral in access to credit .....	20
“Growth with Redistribution”: A Covenant Aborted.....	25
Challenging the Brazilian Welfare Regime.....	30
Bibliography .....	33

## List of Tables

Table 1: Brazil, Federal Social Spending (Cash Transfers) as Percent of GDP, 2003-2014 .....	11
Table 2: Brazil, Federal Social Spending (excluding Cash Transfers) as Percent of GDP, 2003 to 2014.....	15
Table 3: Federal Social Spending—Select Items, Annual Averages by Period as Percent of GDP (2003-2014).....	23
Table 4: Real Growth by GDP Component .....	25
Table 5: Central Government—Selected Expenses (2011-2014) .....	26
Table 6: Tax Burden: Distribution by Category (percent of total revenue) .....	29

## List of Figures

Figure 1: Distribution of Income in Brazil (Income Share by Quintile) .....	3
Figure 2: The Brazilian Social Security System .....	4
Figure 3: Distribution of Bolsa Família by Category, 2014 (percent) .....	8
Figure 4: Share of Brazilians with Any Private Insurance Plan (Health, Medical or Dental), by Sex, Age Bracket, Race/Color and Level of Education, 2013 (percent) .....	12
Figure 5: Brazil, Growth Rate of Minimum Wage, Average Earnings and Consumer Credit....	19
Figure 6: Brazil: Access to Adequate Sanitation and Cell Phones, by Income Deciles, 2003-2013 (percent) .....	24
Figure 7: Brazil, Tax Expenditures (Total and on Social Contributions).....	28

## Acronyms

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

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## Summary

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

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

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

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

In order to address these issues:

- a) We first describe the social protection system, set up in 1988, and the constellation of new social schemes (predominantly residual) introduced in the 2000s. We analyse the structure of social spending and its consequences, and discuss how the social protection edifice has been jeopardized by underfinancing and tax breaks. The focus is on the social security system, which comprises pensions, healthcare services and anti-poverty programmes.
- b) Secondly, we point out how social policies have been used as a strategic development tool in order to enhance market incorporation through the promotion and expansion of a mass consumption society. In so doing, we highlight the positive but also the unintended consequences of the role given to social protection, in terms of the way economic and social policies have interacted. Our main goal here is to identify spill-over effects and complementarity between economic policies and social policy design and implementation in both economic cycles (2003-2010 and 2011-2014). We trace how financialization has been integrated into this framework, paving the way towards greater re-commodification, rather than promoting decommodification.
- c) Finally, we depict how shifting contexts at the world level are affecting the national economy and compromising the future of the Brazilian social protection system, yet again constrained and limited by macroeconomic priorities. Special attention is given to the

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

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

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

### **Keywords**

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

## Introduction

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

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

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

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

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