“I PREFER THAT PEOPLE CONTINUE TO GO HUNGRY to buy medicine, why can't we increase social spending in Brazil?” – this is the thought-provoking question that the researcher of the Institute of Applied Economic Research (IPEA), Marcelo Medeiros¹, asks for our reflection. Considering the researcher’s approach, it is possible to deduce that society has borne a cost arising from political decisions that have restricted the expansion of services in social areas, whose benefit would reach the majority of the population, to meet fiscal goals.

In other words, fiscal policy has long ceased to be an instrument promoting redistribution of income and wealth in Brazil, both in terms of the role of public spending to stimulate economic activity and generate employment and income, in terms of the role that can be played by taxation – increasing the burden on the wealth, income and wealth of the richest 10% (and promoting adjustments that reduce tax evasion and increase progressivity) and, at the same time, reducing the burden on production and consumption (which disrespects taxpayers’ ability to pay and therefore regresses).

What has happened in Brazil is exactly the opposite in recent years: the priority has been the fiscal adjustment sacrificing social spending and, consequently, the majority of the population, conditioning fiscal policy to monetary policy through high-interest rates and treating taxation only as a means of obtaining more revenue to ‘reset’ the public deficit.

The justification that has been adopted for this is that there is a ‘lack of money’ to finance public policies and that ‘public deficits’ are harmful to the economy because they ‘increase uncertainty’ and ‘deteriorate market expectations’. Therefore, it would be necessary to reduce public expenditure, because, otherwise, it would be necessary to increase taxes, and the increase in taxation on equity, income and wealth could result in a ‘flight of capital’ from Brazil. However, the fiscal pressure exerted by the high basic interest rate maintained by the Monetary Policy Committee (COPOM) for many months, with recent reductions still shy, is not emphasized by the market, because it expresses the financial gain of rentiers, whose interests, including are strongly represented by the National Congress.

Unfortunately, this view has predominated, it is true that to different degrees, in the economic area of the different Brazilian governments in recent decades. In 2023, the agendas of tax and fiscal reforms gained priority in this first year of the new federal government, under the coordination of the Ministry of Finance and the Ministry of Planning. What are the objectives of these reforms and what are the impacts on the financing of social security and the Unified Health System (SUS)?

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The fiscal reform prioritized the replacement of the primary expenditure ceiling, frozen at 2016 levels by Constitutional Amendment No 95, by another rule with a small degree of flexibility for expenditure growth – never less than 0.6% per year and never more than 2.5% per year (with some exceptions), as approved last month by Complementary Law No 200/2023 (clarifying the contribution of Bastos, Deccache and Alves Jr²).

As health and education expenses must comply with floors (minimum applications) constitutionally linked to revenue, these expenses will consume much of that maximum limit established, reducing the fiscal space for the growth of other expenses – on this, some representatives of the economic area of the government have manifested themselves by the need to review such linkages, as well as the importance of approving the tax reform in progress in the National Congress, to enable an increase in revenue resulting from tax simplification, because this would stimulate economic activity.

This reproduces the distorted interpretation of reality and the role of social spending and taxation, namely: on the one hand, the increase in social spending does not contribute to expanding economic dynamics or to generating employment and income in the economy; on the other, the increase in taxation, wealth, does not promote redistribution of income and reduction of social inequalities. Both can only serve to meet the objective of balancing public accounts, more precisely, for the generation of primary surpluses capable of bearing the public debt burdens.

Neither the recent evidence is sufficient to break with this logic of fiscal austerity still present in economic policy: it is important to highlight that Brazil had an increase in primary expenditure with a fall in primary revenue in 2020 (the first year of the pandemic) generating primary deficit, and the country did not become insolvent. After all, the Brazilian public debt is in local currency, which allows the rollover of the federal debt with the issuance of new public debt securities.

It should be noted that the federal sphere of government has constitutional competence to finance public policies beyond the balance of public accounts, for example, issuing public debt securities and issuing currency. It is up to the federal government to propose an economic policy that combines fiscal responsibility with social priorities and the different financing instruments established by art. 196 of the Federal Constitution.

In turn, the tax reform should mainly meet the objective of providing income distribution and reducing poverty, as well as promoting tax justice through respect for the ability to pay. For this, the tax reform should prioritize changes in taxation on equity, income, and wealth, so that they represent most of the tax burden, in obedience to the principle of progressivity.

It is necessary to consider, however, that it would be necessary a correlation of political forces different from the one that the current government has in the National Congress. This may be the explanation of why the Constitutional Amendment Proposal (PEC) of the tax reform, currently in progress in the Legislative, deals only with the replacement of several taxes that affect production and consumption – Social Integration Program (PIS), Contribution to the Financing of Social Security (COFINS) and Tax on Industrialized Products (IPI), of federal competence, Tax on Circulation of Goods and Services (ICMS), of state competence, and Tax on Services of Any Nature (ISS) municipal competence – for two new taxes, a tax on goods and services (state and municipal) and a contribution on goods and services (federal).

Thus, it is a tax reform that presents a contradiction when trying to achieve political conciliation: on the one hand, it makes it possible to comply with the principle of simplification, capable of stimulating economic activity; On the other, it does not solve the current regressivity problem – taxes on production and consumption burden low-income taxpayers more than high-income taxpayers.
The government expects economic growth as a result of this tax simplification, which would result (without reducing the injustice in taxation given the regressive character of the taxes affected by this reform) an increase in federal revenue and the generation of employment and income that would partially reduce socioeconomic inequality.

In this context, the tax reforms (in progress in the National Congress) and fiscal (approved with Complementary Law No 200/2023) are complementary to each other, prioritizing the fiscal adjustment. To the public manifestations of authorities in the economic area, the need to comply with the new tax rules from 2024 is putting at risk the maintenance of the constitutional floors of health and education, which are linked to revenue, considering the programming of expenditure from other social areas.

This issue was anticipated by the announced consultation that the Ministry of Finance made to the Federal Court of Auditors (TCU) on the obligation to comply with the constitutional health floor (15% of the net current revenue of the Union of 2023, art. 198 as amended by Constitutional Amendment No 86/2015), after the approval of the new tax framework by Complementary Law No 200/2023. In this same direction (disregard as a mandatory application in 2023 the value of the federal floor of the SUS defined in the Federal Constitution as being 15% of the net current revenue of the year), art. 15 of the Complementary Bill (PLP) No 136 recently approved by the National Congress established that, for 2023, the net current revenue to be considered is the estimated in the Budget Law of the year, whose value is lower than the updated projection. In both cases, there is a debate being held involving mainly specialists in health economics and health law on the possibility of changing the rule of the federal floor of the SUS established in the Federal Constitution by the TCU and through Complementary Law.

As for the tax reform, the social security budget is being disregarded with the adopted form of unification of federal taxes, which, in practice, makes it impossible to maintain this budget conquered in the Federal Constitution of 1988.

A recent study coordinated by the Brazilian Association of Health Economics (ABrES), entitled ‘New SUS Funding Policy’, presented concrete proposals to enable additional resources for social policies in general and for the SUS in particular: a new fiscal rule compatible with budget space for “relevant and transformative expenditures, with strong multiplier and redistributive effect” in combination with the expansion of progressivity of the tax system, taxing income, equity, and financial wealth (Income Tax on profits and dividends and Tax on Great Fortunes), as well as reviewing tax expenditures on health (ceiling of health waivers in the IRPF).

It is appropriate to inform you that this study of ABrES was presented and widely debated in 2022, including with the National Health Council and the Front for Life, who expressed support for the approach and general line adopted in this study. The debate and dialogue with the social control of the SUS and with the entities and movements of the sanitary reform and defense of the SUS should be the guiding methodology for the governmental economic area and the National Congress at this time, in which the PEC of the Tax Reform is being processed.

So far, however, only proposals for tax simplification have been made, although there is still no clear definition of rates and exemptions. One issue that has dragged on since the 1988 Constituent Assembly and remains immune is the linking of contributions on the payroll to finance the S System (SESC, SENAC, SESI, SENAI, SEBRAE), ‘employer’s union contribution’ not explicit), even when extending payroll relief.
The taxation initiatives of the super-riches are rather timid, and the target of intense media and parliamentary pressure. It is true that the taxation of exclusive and offshore funds has already gained ground, but there is still debate about the rates. The debate on the taxation of profits and dividends is being postponed as well as the review for expansion of higher rates for higher incomes and waivers authorized today.

Finally, it is necessary to forcefully undo the myth that there is no money to finance public policies and ensure constitutional ties to Health and Education. In addition, face the brutal regressiveness of our tax system to, in fact, reduce our cruel inequalities. For this, it is necessary to mobilize society, activate social participation, and increase the various mechanisms of political pressure to, after reconstruction, build a more just and supportive Brazil.

Collaborators

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References


