

Waiting for Social Security Reform to come

What can and must be done urgently

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Over the years, economic science has had a number of definitions, ranging from Adam Smith's writings on the processes of production, consumption and accumulation of "wealth", to Alfred Marshall's definition of "welfare", which widened Smith's scope to encompass a broader view of human agency. However, paying no dues to any rigidity or conceptual inflexibility, perhaps the most "adequate" of definitions is that of Lord (Lionel) Robbins in his book "An Essay on the Nature and Significance of Economic Science" (1932) in which, with objectivity and simplicity, one could dare summarize his thinking about economics as being a "science of making choices".

In this sense, the science of rational choices - or the decision-making process under conditions of scarcity - forces both the current and soon-to-be economic teams into taking up on challenges that leave the teachings of the 1970 Nobel Prize in Economics, Paul Samuelson, more current and relevant to our ongoing reality than ever before. In particular, the essential and urgent results of the so-called primary surplus (total revenues minus expenses before interest payments) require, in addition to a thorough study of the best choices in the use of resources for society, a disruptive movement away from almost everything that has been done in recent years - yes, paradigm shifts!

Seizing the legitimacy of the president-elect, the renewal of the Legislative and a technically well-prepared team allow us to face an ever more rigid budget - currently with a "fiscal margin" (a expenses-minus-obligations cap) close to 8%. There is hardly any chance of a constant and definitive recovery bypassing social security reform, however gradual and adaptable,

but some points can and should be tackled as a priority. These will serve not only as the launch of a new management stance, of adjustments and improvements in managerial efficiency, but will also lead, with clear signs of administrative reversal, to changing expectations, confidence indexes, etc., until the Social Security Reform is finally approved.

More than a few actions can be developed immediately. Among those constituting the main focus to enhance the primary surplus with an initial effort "mostly exclusively" pursued by the Executive branch, with possible results for the first half 2019, we suggest:

- Review all tax breaks; aligning it with the future Tax Reform;
- Increase tax collection efficiency - evaluation and adjustments on tax evaders;
- Review and adequacy - audits of social security expenditures and revenues;
- Downsizing of direct Administration - merging of state departments, positions and commissions;
- Permanently suspend transfers (for purposes of capital increase) to State-owned companies;
- Privatize / sell / close possible state-owned companies (need to revoke injunction measure);
- Reduction of *quasi*-fiscal operations (via public banks);
- Public procurement - improving procurement planning and management;
- Review of business-targeting support policies;
- Other inefficient tax expenditures.

The top-100 volumes of non-pension debt, which are not pending before the courts, amount to BRL 378 billion, while the top hundred largest amounts of social security debt adds up to BRL 36 billion, e.g., a

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direct impact of BRL 414 billion. According to the Internal Revenue Service, based on the 2019 Annual Budget Law (LOA), the country has projected tax expenditures (benefits) of BRL 306 billion, or 21% of total expected revenues. Only the National "Simples" Program is expected to cost more than BRL 87 billion, while the Manaus Free Trade Zone will be responsible for tax expenditures of around BRL 30 billion.

In 2017, total federal government costs exceeded BRL 1 trillion, of which only 21.55% occurred in the form of discretionary costs. Total expenditures on active personnel amounted to BRL 82 billion, while BRL 548 billion were spent on social security benefits. Foregone revenues concentrated in nine modalities of tax expenditures reached 4.1% of GDP.

The most important thing, however, lies not only in the "how to do" or even in the "what to do", especially since the current team has already, to a large extent, mapped out and identified their problems, but in the timing of adjustments, cuts and optimization of expenses and revenues. Actions required transcend mere mechanic attitudes. The process, however urgent, demands skills, knowledge, operational capability and technical and managerial sensitivity - that is, there is no room for "learning curves". That is why there is no reason to overlook some of today's highly qualified and non-ideological government executives and managers who take up the challenge of altering logic and, in fact, innovating on procedures.

What is at stake at this moment is the unique opportunity to recover credibility of fiscal management, fostering an environment conducive to reversing, definitively, the harmful practices verified in the past (2008-2016), while consolidating and advancing in new procedures, hence avoiding setbacks. "The undermining of the Fiscal Responsibility Law - LRF" and the maneuvers widely carried out by the Secretary of Finance and the National Treasury,

known as "creative accounting" to conceal the reality of the primary deficit, can no longer occur. In this line, spending on "social policy", due to its expressive share of primary spending, needs to be reviewed and optimized - notably in those points that depend on the Executive, such as the Minimum Wage readjustment (early in 2019), as well as other miscellaneous expenses permanently linked to the latter.

Finally, the initial adjustments carried out by the government will set the tone for the structural reforms to be approved by the National Congress. The expansionist cycle seen in Brazil until 2014 destroyed all progress previously achieved in terms of fiscal consolidation up to 2008, and the more "restrictive" fiscal policy experienced from 2015 was enforced directly by the economic recession. There are better ways to pursue adjustment than to subject it to economic "cyclicalities". Expenditure and its priorities, in the context of allocating public resources, need to be efficient with both previous frameworks and *ex-ante* control mechanisms.

The mantra to be followed is: Absolute fiscal control! Only the cuts and the rationalization of expenditures will drive our finances and the economy to a new level of evolution. The budget is tight, but its magnitude "hides" inefficiencies to be faced with a process of differential allocation, taking into account the structural adequacy of decisions, with courage, competence and responsibility - we need to put the house in order. After all, the term economy comes from the Greek *oikonomia* (*oikos* = household + *nomos* = administration).

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