

# THE INCOME TRANSFERS POLICIES IN BRAZIL FACING TO RECENT GLOBAL ECONOMIC CRISIS

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Since 2008 the global economy incurred a process of crisis, entitled "subprime crisis", which worsened significantly the credit market on a global scale. In this context, the Brazilian economy has resisted the effects of the crisis using a harmonic combination between the execution of countercyclical policies of fiscal and monetary nature, and aimed at promoting the social aspects. The objective of this study is to verify that the income transfer policies contributed to mitigate the effects of recent global crisis on the Brazilian economy. It starts with the hypothesis that even in a scenario of economic crisis it is important that the State continues to provide its citizens, who are in vulnerable situations, access to social rights. The methodology adopted in this paper is the literature search and exploratory. Were used sources of brazilian's searches. Concludes that among the countercyclical measures performed by the Brazilian government to combat the crisis, the income transfer policies constituted themselves as a sort of "automatic stabilizer" during the period in question.

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**Keywords:** State; Economic crisis; Income Transfers Policies; Automatic stabilizer; Brazil.

## 1. INTRODUCTION

Since 2008 the economies suffered the most serious financial crises already observed in the capitalist system, called "subprime crisis", the broad spatial and sectoral coverage, which has shown a high power broadcast worldwide. In this sense, countercyclical measures taken by various governments in order to face the crisis was needed, and Brazil took an important position in the race against the cooling effects of the crisis, stood out as one of the last countries to enter the crisis and one of the first to get out of it, harmoniously combining a set of policies countercyclical nature of fiscal and monetary instruments of social policy.

The objective of this study is to examine whether the income transfer policies have played a soothing view of the consequences of the recent global economic crisis on the Brazilian economy. It is important to note that even if an economy goes through periods of instability and crisis, social expenditures should not fail to be carried out by

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the government, thereby providing access layer of the poorest and vulnerably country's social, social rights.

For this article was organized into five sections, starting with this first introductory section. The second section aims to explain a summary table of the Brazilian economy during and after the subprime crisis. The third section presents briefly the income transfer programs in Brazil. The fourth section is intended to make a reflection about the hypothesis that the income transfer policies implemented in Brazil contributed to mitigate the effects of the recent global economic crisis, the Brazilian economy. The work ends up in the fifth section with concluding remarks.

## **2. THE BRAZILIAN ECONOMY AND THE SUBPRIME CRISIS**

The global financial crisis originated in the housing bubble in the United States. The bubble was caused by the competitive provision of credit to a growing number of consumers of housing, creating a demand for progressive real estate, whose prices have continued to rise for several years. The high property prices replenished the bubble, causing its effects would affect the entire economy. The new owners used the value of its assets, which served as collateral to borrow more, leading to additional costs that broadcast high to other economic sectors. Increased consumer demand for imported products even reached, making the effects of U.S. housing bubble, if propagate around the world.

This propagation was only possible due to the large degree of influence in North American economic scenario, and also, according to Herman (2009), the long process of financial deregulation in the U.S. economy and in several other countries, including Brazil, occurred during the 1980s and 1990s. The main features of this process was the gradual elimination of market segmentation and increase the degree of financial openness between countries.

The fact that the economies are in a network with low restriction on the movement of funds by the financial market led economic agents to rapidly exchange their market positions, given the varied purposes, to anticipate the effects of the crisis, to protect positions, to reduce exposure to leverage, cover any weakness or

loss, or even for short-term speculative gains. In this context, the world economy and even the countries that were little exposed to "subprime" were contaminated by the crisis.

Thus, despite the impact of the crisis, are asymmetric in countries and companies, the first shock wave of the subprime crisis, has spread rapidly around the world. In countries which had a regulated banking system, such as Brazil, there was no contamination of the ripple effects of the crisis, found mainly by disrupting the flow of credit.

## **2.1 The Case of the Brazilian Economy**

The financial crisis of 2008 was a crisis in the financial deregulation, in other words, a crisis occurred in a world of increasing globalization of financial relations, a factor that could explain why a crisis that originated in a sub-segment of the North American real estate ends up resulting in a financial crisis of global proportions, affecting developing economies such as Brazilian economy.

In Brazil, the crisis took place through a number of factors, such as misalignment of relative prices in the foreign exchange and *commodities*, and deep and sudden contraction of credit.

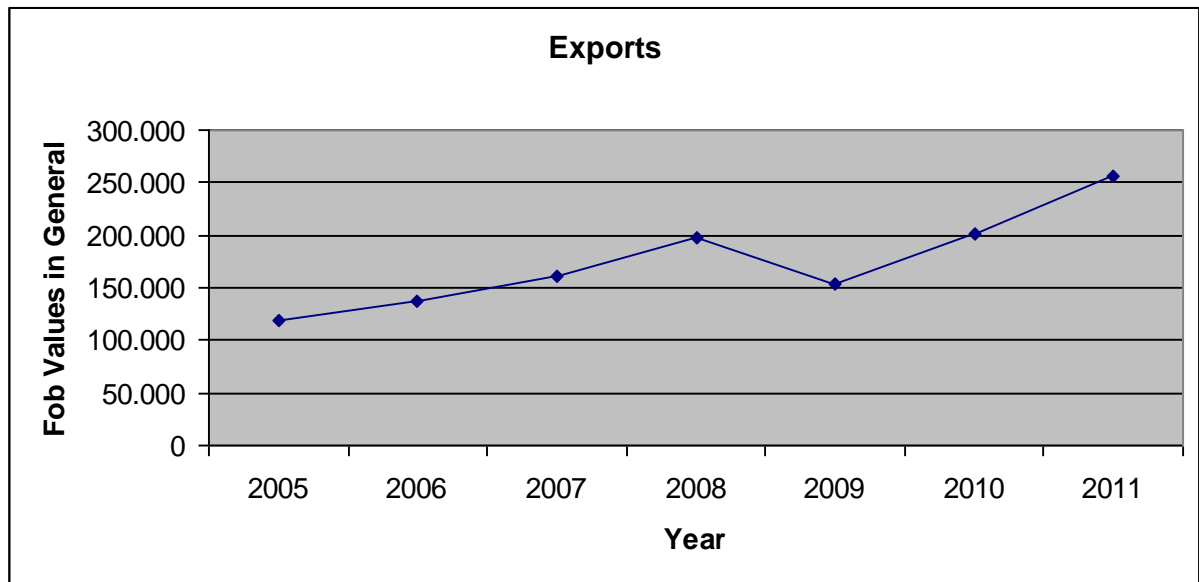
Several production companies, especially exporters, to Oreiro (2009), soured sizable losses with the rapid and disorderly depreciation of the Real in the last quarter of 2008.

As a result of those losses, according to Oreiro (2009), there was a significant increase in the credit risk of companies in the productive sector, the situation was aggravated by the uncertainty that inhabited the international scene due to the crisis, and this made the Brazilian banks significantly reduce the credit, mainly credit to finance working capital of such companies.

Then, the mismatch was felt in international trade. The Brazilian trade balance surplus before, expanded a movement to reduce trade balances due to the loss of revenue, either by falling *commodity* prices and the reduction in volumes shipped. Both movements signaled the beginning of the downturn of the global market for Brazil and

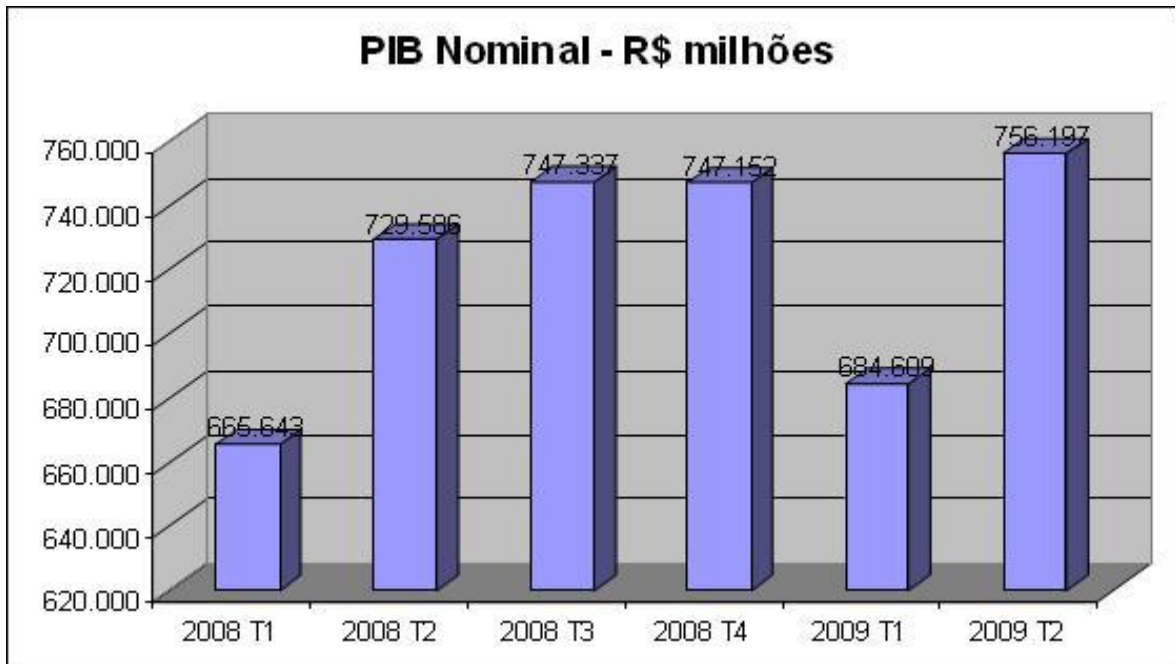
relative prices in the economy before September 2008, no longer existed.

In graphic 1, the grand total of Brazilian exports in FOB measures, is presented, and a significant drop in exports can be observed in 2009.



**Graphic 1 - Brazilian Exports**  
**Source: Own elaboration based on IPEADATA.**

Any decrease or elimination of trade surpluses, coupled with the credit crunch in the international market and the likely decline in direct investments in Brazil and other revenue caused negative effects on economic growth rate in the first quarter of 2009, as shown in graphic 2.

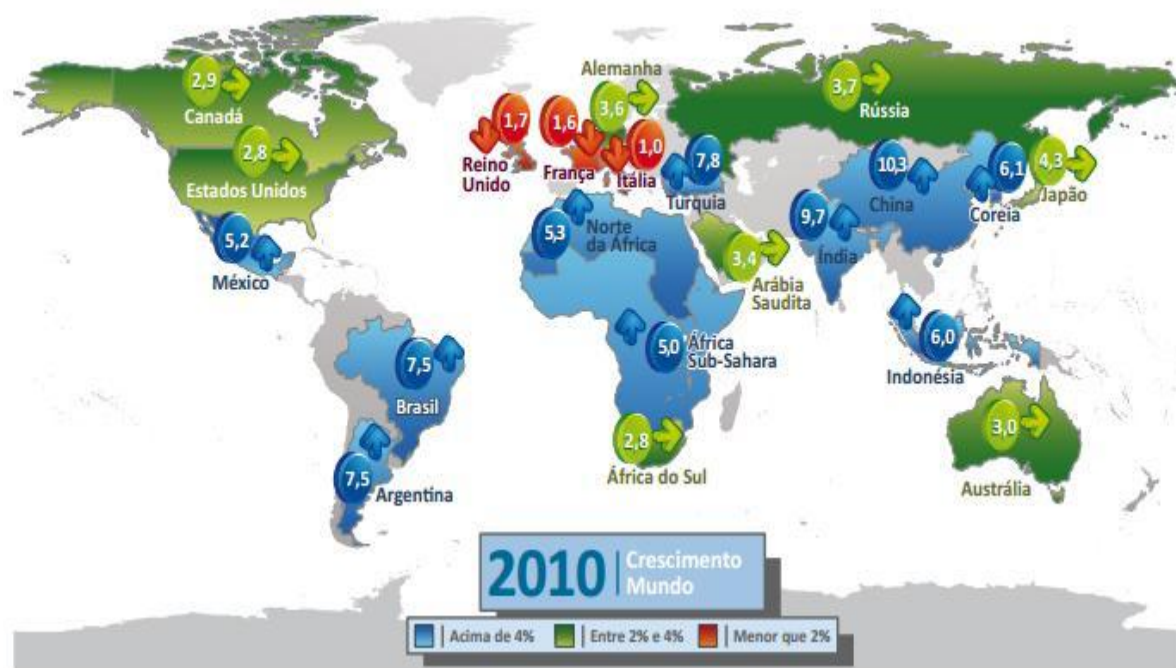


**Graphic 2 - Nominal GDP in the 1st quarter 2008 to 2nd quarter 2009**  
**Source: Own elaboration based on IPEADATA.**

In short, the impacts of the 2008 crisis in the Brazilian economy, were more severe during the last quarter of 2008 and first quarter of 2009, with the retraction of the international lines of credit, followed by a sharp drop in commodity prices, which resulted the devaluation of the real against the U.S. dollar and the deterioration of the indicators of economic activity and employment.

However it is known that Brazil was one of the last countries to enter the crisis and one of the first to get out of it, it was thanks to the various anti-cyclical measures promptly taken by the federal government to confront the crisis, measures of monetary and fiscal nature, in order to stimulate the economy, reversing the expectations of the private sector and ensure the return of confidence among market players.

Below, a map drawn in 2010 by the Ministério da Fazenda Brasileiro in the report "Economia Brasileira em Perspectiva" illustrates the changes in world geopolitics and the new world economic scenario that is set in post-crisis period in 2010. The figure shows the economic growth rates in different countries based on data from the FMI and The Economist.



**Source: Report "Brazilian Economy in Perspective" published by the Ministry of Finance of Brazil in 2010, based on data from the IMF and The Economist.**

About some countercyclical measures to confront the crisis of 2008, found in Brazil and according to the report "Economia Brasileira em Perspectiva" published in 2010 by the Ministério da Fazenda Brasileiro, the government in the tax field, held a series of tax cuts for stimulate sales and production both increased transfers to states and municipalities as financial contributions to public banks and temporarily reduced - from 3.3% to 2.5% of GDP - the primary surplus target. In the monetary field, we observed the immediate provision of liquidity in foreign and domestic, the availability of international reserves to foreign trade, the establishment of credit facilities for the export sector and the reduction of reserve requirements of banks. Further, the Banco Central initiated a movement to cut the Selic base interest rates as a way to contribute to the recovery of economic activity. (Brazil, Ministério da Fazenda, 2010).

The state's role was crucial to the strengthening of the Brazilian economy in the period before the crisis, and later the same in his recovery, directly or indirectly by stimulating employment and income, allowing the maintenance of an upward trend in household consumption, and this was a key driver of domestic consumption in the country. It can be concluded that Brazil was not succumbed to the global financial instability, largely because it was able to sustain consumption at high levels throughout

the period of the crisis more acute.

It is the purpose of section 4 of this work, an approach on the role of income redistribution policies, with regard to coping with the subprime crisis, they were strategic in this sense? It is the last section that purports to explain.

### **3. TRANSFER PROGRAMS OF INCOME IN BRAZIL**

Regarding the issue of poverty in Brazil, there was no due attention by the state during the postwar period until the early eighties. The state of a shared conception of economic development where their own actions, the country would lead automatically to social development through the incorporation of agents outside the formal labor market in this segment. For Cohn (2004), poverty was not conceived as a problem of structural order in which Brazilian society incurred, and therefore social policies aimed at the population that was in this condition did not develop.

Only after the nineties is that poverty is now seen as a problem to be faced by society in general and in particular by the state, so the issue becomes poverty agenda of the government debates and initiatives aimed specifically at reducing social inequalities started to be implemented. Social policy was highlighted, especially those targeted policies that aim to benefit people living in extreme social vulnerability.

The creation of income transfer programs for the federal government, was one of the most important events occurring in Brazilian social policy, the second technical note IPEA (Instituto de Pesquisa Econômica Aplicada) published in 2006. Emerged as an alternative to immediate combat poverty and between generations.

The design of income transfer programs, beneficiaries have the autonomy to define how they will allocate the resource received because they are aware of their own most urgent needs. And in some programs there is the idea that the recipient is able to exercise their citizenship and can act as an effective economic agent by entering into a broader context where relationships through which they can gradually reduce the effects of their condition of poverty .

Cash Transfers in Brazil includes a wide range of policies and programs such as Bolsa Família, the Benefício de Prestação Continuada, the Seguro-Desemprego, the Pensões e Aposentadorias granted by Previdência Social, the Programa de Erradicação do Trabalho Infantil, the Bolsa Verde, the Programa de Fomento, the Garantia de Safra, among others. However if we take into consideration the issue of targeting of cash transfers, where family poverty is a condition for receiving the same benefit, the major income transfer programs are the Bolsa Família and the Benefício de Prestação Continuada, so it is necessary the presentation of this section.

### **3.1 – The Programa Bolsa Família**

Implemented by the Brazilian federal government in October 2003, the program has unified four other programs of conditional cash transfer existing Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and further incorporated the Vale-Gás, a transfer without consideration. Created in order to combat poverty and ensure the poor or extremely poor families their right to food.

According to the Ministério de Desenvolvimento Social e Combate à Fome (MDS), the management of the Bolsa Família is decentralized and shared by federal, state, Distrito Federal and municipalities. The federal agencies work together to enhance, expand and monitor the implementation of the Programme. The list of beneficiaries is public and can be accessed by any citizen. (Brazil, MDS, 2012).

The Bolsa Família has focused on three main income transfer, conditionalities, actions and complementary programs. The income transfer promotes the immediate relief of poverty. Conditionalities enhance access to basic social rights in education, health and social care. Have the actions and programs aim at further development of families, so that beneficiaries can overcome the situation of vulnerability. (Brazil, MDS, 2012).

About the conditionalities, these to the Ministério de Desenvolvimento Social e Combate à Fome (MDS), are the commitments made by both the beneficiary households and by government to expand the access of families to basic social rights. On the one hand, families should take to fulfill these commitments and to continue



receiving the benefit. Second, the government is responsible for the provision of public health, education and welfare. (Brazil, MDS, 2012).

Caixa Econômica Federal (CEF), is the agency responsible for receiving information collected by the municipalities comprised in the Cadastro Único (CadÚnico), process them and finally pay the monthly benefit families. On its Web site lists the requirements for receiving such benefits, as follows:

-Inclusion of the family, by the city, the Cadastro Único of Social Programs of the Federal Government. But registration does not imply the immediate entry of the families in the program and receive the benefit.

-Selection by the Ministério do Desenvolvimento Social e Combate à Fome (MDS).

-In case of any pregnant women, attending antenatal consultations, as schedule recommended by the Ministério da Saúde (MS).

-Participation in educational activities offered by the MS on breastfeeding and healthy eating, in the case of inclusion of nursing mothers.

-Keep up to date vaccination card for children 0-6 years.

-Ensure minimum 85% attendance at school for children and adolescents aged 6 to 15 years.

-Ensure minimum 75% attendance at school for adolescents 16 and 17 years.

-Participate, as appropriate, programs for adult literacy.

### **3.2 Benefício de Prestação Continuada**

Represented a major advance in Brazilian social policy, the Benefício de Prestação Continuada was the first of a social minimum benefit non-contributory (part of the Proteção Social Básica no âmbito do Sistema Único de Assistência Social - SUAS, and to have access to the benefit is not must have contributed to Previdência

Social), guaranteed by the Constituição de 1988, dependent on the current income of the beneficiary and can not linked the condition of current or past job of it.

It consists of a transfer of income for the elderly aged 65 or older, and persons of any age who have disabilities with severe impairments of long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others. (Brazil, MDS, 2012).

The elderly or disabled persons must prove not have the means to ensure their own sustenance, or have it provided by his family. The inclusion in the program is conditional on per capita income, and must be less than  $\frac{1}{4}$  (one quarter) of the minimum wage. In case of death or absence of the beneficiary, the benefit has its terminus, since it is intended to sustain the old age, disability and poverty.

#### **4 REDISTRIBUTIVE POLICIES INCOME: A STRATEGY TO FACING THE CRISIS OF SUBPRIME?**

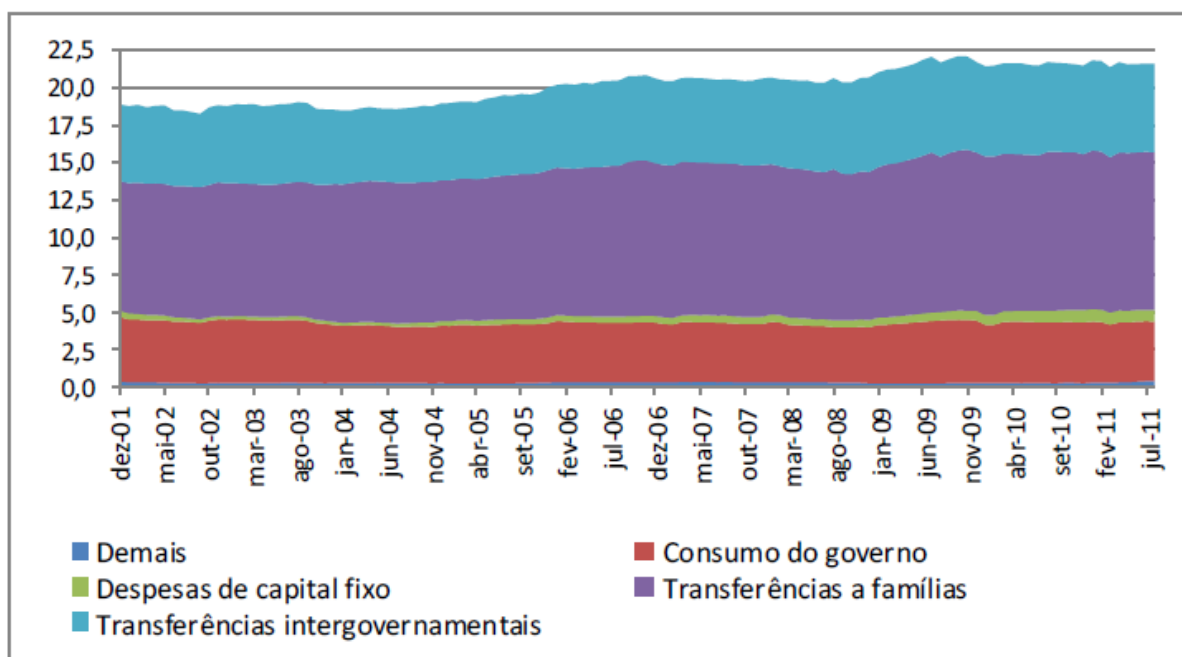
This section is intended to make a reflection about the hypothesis that income transfer policies implemented in Brazil, helped to mitigate the effects of recent global crisis on the Brazilian economy. For this, we present some data concerning expenditure of the Brazilian federal government in the period 2001 to 2011, as well as discussion on how to run redistributive income policies in the last decade.

As one of the coping strategies of the Subprime crisis, beyond the measures of countercyclical fiscal and monetary nature, presented earlier, some countries, especially Brazil, have taken permanent measures to increase the coverage and effectiveness of social protection system. If well designed, these policies also help to leverage the economic recovery process, as well as a process of long-term growth. So, we start from

the assumption that the social protection system can function as a kind of "automatic stabilizer"<sup>3</sup>.

In a study by IPEA (2011), has been the presentation of the total expenditure of the Brazilian federal government. To fulfill the objective of this study, we present only the expenditures in the form of transfers to households, especially in the form of welfare benefits and social security as the social benefits paid by the government to retired employees and their dependents and other social benefits paid by the government as the INSS (National Institute of Social Security), unemployment insurance and Programa Bolsa Família.

According to graphics 3 and 4, in the period 2001 to 2011, expenditure class corresponds to the fastest growing transfers to households. In graphic 3 transfers to households corresponds to the shaded in purple and in graphic 4 the shaded red.



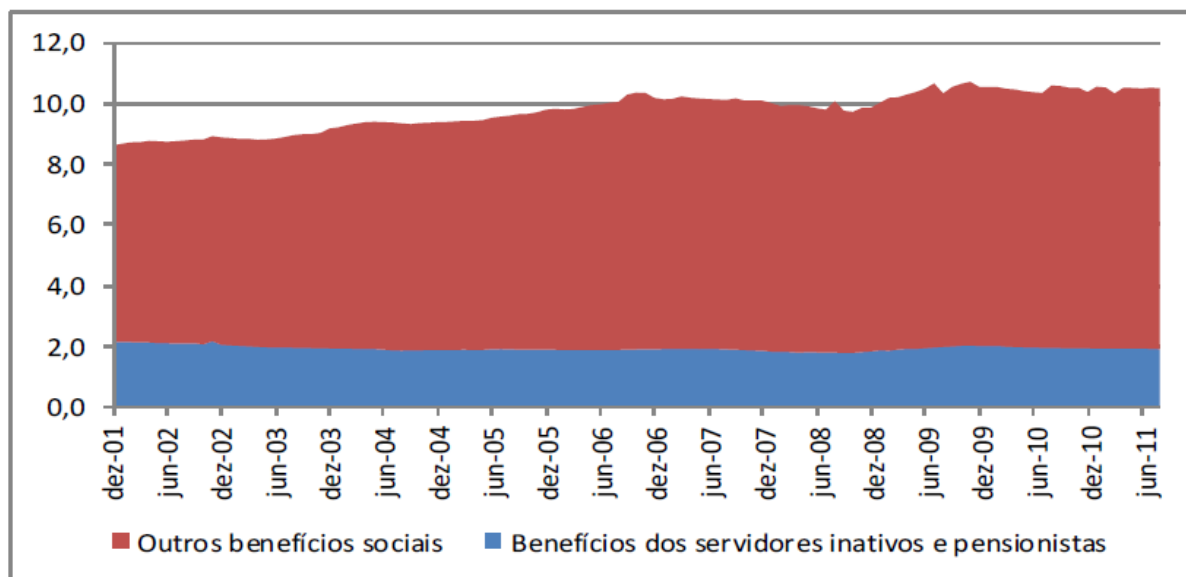
**Graphic 3 - Classes of federal government expenditures (Accumulated in 12 months, participation (%) in GDP)**

**Source: Siafi e Banco Central. Preparation: IPEA**

Also according to IPEA (2011), it is important to note that increased spending on transfers to households, shown in graphic 4, is associated with other care and pension benefits credited, excluding those destined to retired employees and pensioners.

<sup>3</sup> It is understood automatic stabilizer for any action of the economic system that tends to reduce mechanical forces of recession and / or expansion of demand, without the need for discretionary economic policy.

Methodologically, the aggregate "transfers to households" is composed of highly heterogeneous items, ranging from the pensions of civil servants and paid to the Programa Bolsa Família transfers to extremely poor Brazilian citizens, through the benefits of the General Social Security System (RGPS) and the Organic Law of Social Assistance (Loas).



**Graphic 4 - Transfers from the federal government to households (Accumulated in 12 months, participation (%) in GDP)**

**Source: Siasi e Banco Central. Preparation: IPEA**

As regards the contribution of each component in the growth of share of transfers to households in GDP for the period 2004 to 2010 (Table 1), the IPEA study (2011) showed that the largest contributions relate to expenditure pension (the contribution of RGPS represents 33.1% of total), and policies of guarantee of income to the unemployed (unemployment insurance and salary bonus participate with 26.5%), disabled and elderly (Loas: 16.2% of total). These indicators are reflections of precepts based on the 1988 Federal Constitution, which among other objectives, presents the need to expand the coverage of social security structure, and that, in recent years, not only has fulfilled an important social role, but also comes offering macroeconomic dynamics, in that - alongside the credit - is the determining factor of the expansion of domestic demand.

<b>Transfers to Families</b>	<b>Contribution (%)</b>
Benefits of Social Security Own System (RPPS)	11,9
Benefits of RGPS	33,1
Assistance benefits from Loas	16,2
Unemployment insurance and salary bonus	26,5
Programs Social Cash Transfer (Bolsa Família)	12,0
Other social benefits	0,2
<b>Total</b>	<b>100,0</b>

**Table 1 - Contribution to the growth of transfers to households as a proportion of GDP: involvement of components between 2004 and 2010 (In%)**

**Source: Siafi e Ministério da Previdência Social. Preparation: Ipea.**

In fact, the government has been implementing a stated strategy to promote income redistribution via social spending, through a policy of enhancing the minimum wage and expansion of social programs to transfer income, as the PBF - Family Grant Program.

Table 1 shows that, in the aggregate, the effects of the appreciation of the minimum wage on the benefits of the General Social Security (12.2%) and the Organic Law of Social Assistance (16.2%) and the expansion of social programs transfer of income (12.0%) contribute more than a third of the total increase in the share of transfers to households in GDP.

According to Torres (2011), there is evidence that social protection measures that support those who suffer from various deprivations promote economic growth and employment. This is mainly due to the fact that low-income families to consume domestic goods are produced domestically and which cause the multiplier effects of employment. Specifically, in the case of the Bolsa Família (the main cash transfer program in Brazil) has been observed that, besides having obtained achievements in reducing the level of poverty and hunger, as well as improvements in social development in general, they constitute the main objectives of the program has positive effects on income growth and entrepreneurial activity. In particular, the expenditures made by beneficiaries of the program, contribute significantly to the dynamics of local economies, since the money is spent on domestic goods sold in local markets.

The argument underlying this claim is that such programs can reduce the volatility resulting from economic shocks, and in general, programs that are already consolidated at the beginning of a crisis (as was the case of the Bolsa Família) are more efficient and effective in terms of costs than new programs that have initially higher cost and its effects will only be shown at least the medium term.

Thus, we conclude that the government's strategy to promote income redistribution via social spending, despite having contributed significantly to the advancement of primary expenditure of the economy, generated substantial gains with respect to rising incomes of the poorest in the country. An important part of the recent drop in poverty and inequality of income distribution in Brazil can be attributed to social programs to transfer income and the effects of minimum wage is about the benefits of social security and assistance, either on labor income.

Hence the importance of expanding the coverage of social security structure enshrined in the Constitution of 1988 - and, more specifically, the government's strategy to promote income redistribution via social spending - at the same time expanding access to credit for the significant gain purchasing power of the poorest population, which contributed substantially to the strength of domestic demand in recent years. The incorporation of a considerable part of the poorest in the country to the consumer market, the rise of social classes, has been a key element of the current model of economic growth in Brazil.

## **5. CONCLUDING REMARKS**

The study aimed to verify whether the income transfer policies contributed to ameliorate the effects of recent global crisis on the Brazilian economy, behaving as a sort of "automatic stabilizer". Overall, it was observed that the Brazilian government, especially since 2002 according to data presented show, adopted a strategy of promoting income redistribution via social spending. This strategy had redistributive impact on national income distribution within the social and economic activity. Within the social distribution of income, the effects are clear, since the social programs and most welfare benefits and care are directed to the poorest of the population. In macroeconomic

perspective, the expansion of these benefits also appears to have contributed significantly to the dynamism of domestic demand and the recent performance of the Brazilian economy, especially as regards the rapid exit of the subprime crisis.

Unquestionably the need to ensure direct redistributive policies as a way to alleviate situations of vulnerability to incur millions of Brazilians. However, it is also necessary to increase investments in policies of social services, and they jointly redistributive policies are harmonious, coordinated economic policies. Thus, this integration, we met and social issues that ultimately boost the economy, ie, the economy becomes an element of a broad process of integrated development.

The moment that establishes a harmonious relationship between redistributive policies and policies to provide social services, there is a new conception of social policies in general, that no longer have a character "welfare" (as known in the vision of market), the result of the inefficiencies of the state and come to be seen as a social investment. It is understood that social investment works as the main instrument to overcome social inequality, the measure that enables the output of millions of people out of poverty, going to integrate them in economic dynamics.

It is worth noting that the income transfer policies are effective in mitigating the effects of an economic crisis, behaving as a sort of "automatic stabilizers" and are elements of a process of long-term economic growth, as they are part of a broader strategy of social protection, aiming not only to act as a safety net of minimal and temporary.

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