The Brazilian public pension system: Policy changes, political effects

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This article discusses the reciprocal relationship between public pension policy and age-based politics in Brazil, a nation with a public pension system that has the potential for influencing policy developments in other developing nations faced with the problem of how to extend social security coverage to the entire population. Our goal is to extend a line of analysis used in previous studies of industrial nations to the case of Brazil. Pension policy changes made during the 1960s and 1970s had a number of unintended consequences. One was the role these policy changes played with respect to the emergence of rural unions and age-based interest groups: both are becoming increasingly important actors with respect to pension policy. We discuss the implications of the Brazilian case for policy options and outcomes in other newly democratic nations, particularly those in Latin America.

During the past 20 years or so, much work has been done on the emergence and development of public pension policy in various countries. The focus has generally been on an analysis of the social, political, and economic factors that have shaped such policy. A few studies have attempted to take the analysis a step further by looking at the impact such programmes have had on society and politics. With some notable exceptions (Pratt, 1993), very few studies have attempted to assess the impact changes in pension policy have had on the development of age-based interest groups. Prior studies of the reciprocal relationship between pension policy and age-based politics have generally focused on industrial nations. However, this and other issues associated with the greying of a nation's age structure are not restricted to the industrial nations. By the year 2000 two-thirds of the aged population will be located in the Third World (World Health Organization, 1989).

In the present article we focus on the social and political impacts public pension policy developments have had in Brazil. There are a number of factors making Brazil a particularly interesting case. Brazil has had a public pension scheme in place since the 1920s, making it one of the oldest public pension schemes in the developing world. The scheme is also one of the most comprehensive in the developing world with respect to coverage. Brazil is one of the few developing nations that have been
able to provide nearly universal coverage (Mesa-Lago, 1989) and one of the few that provide social security benefits to rural workers (Williamson and Pampel, 1993). The Brazilian pension scheme is also of interest because it represents a sharp contrast with the neoliberal, largely privatized scheme introduced in Chile during the early 1980s (Gillon and Bonilla, 1992). Many developing nations, particularly those without any old-age security schemes and those with schemes that provide coverage to a very limited segment of the population, are at a crossroads with respect to the future direction of public pension policy. Some will choose schemes along the lines of the Chilean model, with its minimalist social insurance programme, a meagre safety net for a largely privatized approach to old-age security; others will choose something along the lines of the Brazilian model as they attempt to broaden social insurance coverage to an ever-increasing segment of the population (Williamson and Hochman, forthcoming). The Brazilian case is also important because it is an experiment with respect to the extension of coverage in a context of transition from an authoritarian regime to democracy. Given the goal of extending social security to the entire population, the challenge to many developing countries is how to reshape their systems while maintaining a commitment to the democratic order that includes the presence of many interest groups competing in the policy arena.

In this paper we begin with a brief discussion of the reciprocal relationship between pension policy and politics. We then present an overview of public pension policy developments in Brazil since 1964 in which this relationship can be observed. In this context we first consider the period of military rule (1964 to 1985) and then the recent era of democratization. We next describe the strengths and limitations of the current system. We conclude with a discussion of the impact on Brazilian politics and society that these changes in public pension policy have had and of the implications of the Brazilian case for other developing nations.

**Pension policy and pension politics: The reciprocal effects**

Most studies of public pension policy have viewed policy in this arena as the outcome of social, political, and economic factors such as demographic structure (Gifford, 1990), level of industrialization (Wilenisky and Lebeaux, 1965), the influence of interest groups (Janowitz, 1986), and class conflict or class interests (Myles, 1984; Quadrin, 1988).

These factors are viewed as having played a major role with respect to the decision to introduce public pensions and with respect to the subsequent evolution of these programmes.

Other analysts such as Skocpol (1992) and Pratt (1993) argue that while pension policies are shaped by such factors, it is also important to note that the introduction and subsequent development of such programmes generally have a reciprocal impact on politics and society. As politics and society create policies, these policies in turn remake politics (Skocpol, 1992, p. 58).

These analysts argue that public policy, including public pension policy, is not just the outcome of the demands of existing interest groups and of other changes in the social and economic environment; it must also be viewed as a source that can transform the State and society, that can create new interest groups and reshape politics in...
ways that affect subsequent policy developments.

In his comparative analysis of the formation and development of the Brazilian public pension system, Pratt (1993) shows that public pension programmes, once introduced in these countries, have provided a major stimulus to the emergence of age-related interest groups and voluntary organizations concerned with old-age security issues. The central thesis of Pratt’s recent book is that changes in public pension policy have generally not taken place in a vacuum, but have been influenced by historical factors. He argues that in these three countries many age-based organizations and their political activities can be interpreted as indirect and unintended byproducts of changes in government pension policies. Pension policy changes are in some cases the outcome of a sponsorship relation between a state bureaucracy and an interest group (Pratt, 1993). When new social security programmes are introduced, their actual and potential beneficiaries as well as those who administer them become interest group constituencies on behalf of the subsequent expansion of spending on these programmes (Cutright, 1967; Williamson and Weiss, 1979).

Comparative studies have shown that certain conditions foster the existence and success of age-based interest groups: at least minimal guarantees of civil liberties, a tradition of voluntarism, and attainment of a basic level of personal income (Williamson and Pampel, 1993). Immergut (1990; 1992) has analysed the success and failure of physicians’ organizations in their efforts to block health care reform in Switzerland, France, and Sweden. Her focus is not on the power of various interest groups, but on which groups have access to key decision-making groups and arenas. The rules of the game, which are increasingly democratic in Brazil and other Latin American nations since the 1980s, create institutional points of veto or policy enforcement by groups that appear to have relatively little power, at least to analysts emphasizing the number of affiliations and economic resources.

This analysis is useful in helping account for the substantial influence in Brazil in recent years of what are generally regarded as relatively weak organizations such as those representing the interests of pensioners. Such organizations have in large measure been created by the expansion of the social security coverage. They are often in a position to promote or veto policies and policy proposals by taking advantage of access to key policy-making arenas in the context of democratic rules.

**Public pension policy in Brazil**

**The era of military rule (1964 to 1985)**

Starting with the 1964 military coup and particularly during the 1970s, Brazil made profound changes in its social security system, many of which were aimed at administrative and financial centralization. The first change came in 1967 when the country’s six retirement and pension institutes created during the 1930s and organized by occupational category (marine, commercial, bank, industrial, transport and cargo, and public service and railroad workers) were merged to form the National Social Insurance Institute (INPS). The Ministry of Social Insurance and Assistance (MIPAS) was created in 1974; three years later came inauguration of the Na-
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tional System of Social Insurance and Assistance (SINPAS), managed by this new ministry. SINPAS was made up of organizations with specialized functions, such as pensions, health care, social assistance, and the separate institutions for civil servants and rural workers (Oliveira and Azevedo, 1985).

This move towards administrative reorganization reflected and accompanied a substantial increase in the number and kinds of social insurance benefits and medical assistance services provided, as new groups were brought into the system. These groups included rural workers (1971); household servants (1972); the self-employed (1973); and rural employers (1975/76) (Malloy, 1979; Oliveira and Azevedo, 1985). The Rural Pension Programme (FUNRURAL) was funded in part by a tax on wholesalers who purchased rural products and in part by a tax on urban employers, but without any direct tax on employees (LeGrand, 1989; Weise, 1970). The rural programme was more limited than its urban counterpart. It represented the first break in four decades from a contractual conception of social rights (Santos, 1985).

In 1974 the government signed a law providing a guaranteed monthly pension for those above age 70 who were unable to support themselves and who were without help from their families. The basic eligibility criterion for programme benefits was that a person must have contributed to the system for at least 12 months during his or her working life (this requirement was reduced to one month for those who did not begin to make contributions until they were over age 60) or have received a wage from a paid activity for five years without making contributions to the system (Gonçalves, 1993). When this benefit was created the value was about 50 per cent of the so-called monthly minimum wage (MW). This is the minimum wage guaranteed by law for all workers in the formal sector of the economy. It is adjusted periodically to offset inflation. Over time the value of the guaranteed minimum pension has increased.

The first changes made by the military regime were reasonably successful efforts to counteract the influence of organized labour (which had increased substantially during the “populist era” from 1945 to 1964) on the social insurance system (Keck, 1989). They were also a response to the deep financial and administrative crisis of the early 1960s (Abranches, 1982). The changes promoted by the military regime were formulated and implemented by a social security bureaucratic elite that had been proposing the administrative unification of the pension system and greater equity between covered groups since the 1940s (Hochman, 1988; Malloy, 1979). During the 1970s the authoritarian regime in power made changes designed to broaden its base of support and to keep the process of political democratization under government control (Skidmore, 1988). The latter was particularly important given that the regime’s main source of legitimacy — the amazing economic growth known as the Brazilian Miracle (1968 to 1973) — had begun to display signs of wear and tear. It was becoming evident that for the bulk of the population, the “miracle” meant more poverty and an increase in the nation’s already high level of economic inequality (Abranches, 1985).

The changes of the 1970s brought about a consolidation of the Brazilian social security system. The number of contributors increased, as did access to benefits and services for broad sectors of the population.
Spending and revenue continued to grow. This decade was a period of substantial growth and administrative reorganization. Between 1970 and 1980 the number of pensions paid out rose by 245 per cent, and by 1980 spending on rural pensioners represented approximately 30 per cent of total pension spending (Barros Silva and Médici, 1993; NEPP, 1986). In 1970, some 9 per cent of the population was contributing to the social insurance system; by 1981 the figure had increased to 20 per cent, with another 9 per cent receiving some type of pension benefit (Barros Silva, 1984; Britto, 1992). As one indication of this expansion in coverage, it is of note that the ratio of pensions to the population age 60 and over increased from 19 per cent in 1970 to 70 per cent in 1980 and then to 76 per cent in 1985 (LeGrand, 1989).

The increase in pension spending and coverage was due in part to the government's political strategy, in part to the growth of the economy's modern sector which transformed Brazil into an urban industrial nation, and in part to changes in demographic structure during the 1970s. In 1980 the industrial sector was contributing 38 per cent of the GNP, the service sector 52 per cent, and the rural sector only 10 per cent. In 1960 the rural sector accounted for 54 per cent of the economically active population, and 20 years later this had decreased to 29 per cent (Santos, 1990). Life expectancy increased to 64 years and child mortality dropped by 40 per cent during the 1980s. Fertility decreased by 24 per cent during the 1970s and another 24 per cent by the mid-1980s (Gonçalves, 1993; Moreira and Carvalho, 1992; Vianna, 1993).

This process of expansion was marred by troubles and irregularities typical of state intervention in Brazil, yielding distorted, ineffectual policies (Abranches, 1985). Among the policy changes were financial and administrative centralization under the federal government; the extension of rights to large parts of the population irrespective of prior contributions; non-accountability on the part of administrators; a lack of control over programmes; and the exclusion of most categories of contributors and the insured from policy making (while certain groups enjoyed privileged access to decision-making arenas). Corruption, fraud, and tax evasion were fostered by the system's lack of transparency. Another problem was the frequent use of the system's financial, human, and administrative resources for emergency, clientelism or electoral purposes.

The economic growth of the 1970s, the inclusion of new contributors, and the creation of new social security taxes paid by companies made it possible (so long as earnings grew) to increase benefits and services to workers (whether they were contributors or not) and at the same time to satisfy the short-term political interests of the regime in power. This expansion generally came in the form of low-value benefits and low-quality medical and assistance services with considerable variation across the different categories of workers: urban versus rural, contributor versus non-contributor, those paying in greater versus lesser amounts.

The beginning of the 1980s was marked by two intimately interlinked processes: persistent economic crisis and democratization. During the first half of the decade, funding for the social security system became a major problem for the government. Deficits were recurrent; the economic crisis pushed down revenues; the expansion of coverage meant increasing expenditures.
especially because access to the system's medical and social assistance services had been expanded irrespective of contributions.

Contributions from urban workers and employers — the main source of funds — came to be used for a growing number of benefits and assistance services. Because access to assistance services was not linked to contributions, the demand for these services increased dramatically. Because a large share of the population had been excluded from the benefits of modernization under the prior two decades of military rule, the impact of these changes on the funding base used to finance the social security system was profound.

The military government adopted a strategy of trying to boost revenues by increasing contributions while at the same time holding down spending, thus placing the onus of paying for the added benefits and services on pension contributors and beneficiaries, a burden made all the more difficult by the inflationary environment. In 1982 the system spent US$11 billion on benefits and by 1985, at the end of the era of military rule, the figure had dropped to US$7 billion, the low for the decade (Britto, 1993). Worse, however, was that during this period no effort was made to broaden the economic base used to finance the system, a base which had become structurally incompatible with the funding needs of an ever broader and more universal social security system. For example, in 1970 there were 4.2 contributors for each pensioner. By 1980 the figure had dropped to 3.2 and by 1990 it had dropped further to 2.5 (Britto, 1993).

As Brazil entered the 1980s, a period of economic and political crisis, the country's pension system had been expanded to encompass a very substantial proportion of the Brazilian population, at least with respect to statutory eligibility. However, its financial base was precarious and lacked an adequate mechanism for guaranteeing an adequate pension to all of those who were now by law eligible for pensions. In 1983, for example, of those aged 60 and over who were no longer in the labour force, 54 per cent had a monthly income of only one MW (about US$94) or less (Prata, 1991).

The democratic period and the 1988 Constitution

The struggle for democratization was also a struggle for social policy reform. Thanks to the process of "political opening" intellectuals, opposition politicians, unions, and professional associations were able to criticize the shortcomings of government's model of economic development, a model that excluded substantial sectors of society and further concentrated wealth. Social policy played a central role in these criticisms, given the country's overwhelming social deficit, which had been aggravated by the pattern of economic development preferred by the military regime. The role of social policy was also important because the expansion of social benefits during prior decades had made it strategic both in enhancing the life of vast segments of the population and in protecting the special interests of certain professional and economic groups (Castro, 1993; Faria and Castro, 1990). The opportunities for political activity created by democratization increased the level of interest group activity and the demands by many groups for increased social protection.

The democratic period had as one of its legacies from the prior era of the military regime the unanticipated political effects
of the introduction of the Rural Pension Programme in 1971. The extension of social security coverage to new segments of the population that was fostered by this and a number of other new programmes during the 1970s led to the growth of new interest groups and professional associations linked to these new programmes and policies. Government policy-makers decided to implement the Rural Pension Programme in a decentralized way. A major goal was to reduce the level of bureaucratization and corruption so often associated with social security programmes. This goal was consistent with the regime’s stated commitment to reducing the level of corruption in the administration of the Brazilian social security system.

The programme was designed to be administered in large part by non-state organizations, a decision linked to the relative lack of state organizations in rural areas. In some rural areas, among the few organizations in place that the government could turn to were workers’ associations. The government’s willingness to work with such groups represented a major policy shift: prior to this time government policy had been strongly opposed to the development of labour unions in rural areas, and unions had always been strongly opposed by rural proprietors. The new readiness to use workers’ associations to distribute social security pension and health benefits became a major stimulus to unionization of rural areas (Santos, 1985, pp. 299-300).

Another unintended consequence of marked expansion in social security coverage during the 1970s was the development of organizations and associations representing the interests of the elderly. Prior to this time pensioners had been represented by organizations linked to a specific professional or occupational group reflecting the corporatist structure of Brazilian society.

But now for the first time such organizations as the Brazilian Confederation of Retired People and Pensioners (COPAB) emerged. This organization was founded in 1985; it represented the interests of pensioners across occupational categories (Haddad, 1992).

Criticism of the authoritarian regime’s social policy and calls for social policy reforms and expansion became central to the efforts of opposition forces. Economic growth accompanied by a redistribution of income and more effective, egalitarian, and universal social policies formed a substantial part of the “generic agreement” uniting the broad, heterogeneous coalition that inaugurated the Nova República (1985-1990), Brazil’s first civilian government in 21 years. Expectations were high that social policy reforms, rather than being incompatible with proposed economic changes, would prove to be useful instruments for such changes as redistributing wealth and fighting poverty (Castro, 1993).

Some reforms were introduced in 1985, albeit not without conflict, and they were widely debated in the 1987-1988 Constituational Congress, in which all interest groups participated actively. These reformist proposals became part of the new Constitution, which took effect in October 1988.

In this debate, the National Confederation of Rural Workers (CONTAG) was the organization that defended the most universalistic proposals for the social security system. It successfully pressured the Constitutional Congress to include a contingent of “non-workers” and “non-contributing workers” in the pension system
and to reduce differences between the urban and rural programmes (Melo, 1993).

CONTAG was somewhat less successful in its call for a reduction in privileges and inequalities (Melo, 1993). The latter proposals met with resistance from urban union sectors and the national pensioners’ organization (COPAB), the second largest lobby during the constitutional process (Haddad, 1992), an organization representing those who felt threatened both by the extension of rights independent of contributions and by talk of ending existing privileges, such as the special pensions for certain groups and the length-of-service retirement pension (LOS) (Melo, 1993). In general, COPAB achieved its goals with respect to the enlargement of the public pension programme and particularly with respect to the size of the pensions and adjustments for the erosion of pension benefits due to inflation.

At the time neither more right-leaning parties and politicians nor associations representing interests in the private pension sector seriously questioned tight government control over the old-age pension system. The private sector lobbied against increases in company contributions to the social security system; but these efforts were defeated by an alliance between a government intent on expanding its fiscal base and groups interested in expanding system benefits, including social welfare workers, bureaucrats, pensioners’ organizations, unions, and centre-left parties.

The Constitution introduced innovations that produced progress with respect to standards of social protection, which began to approach those in many developed countries. These innovations were intended to make the Brazilian social security system more egalitarian and universalistic. They reinforced the redistributive character of social policies and promoted homogeneous social rights, public accountability, decentralization, and the state regulation of benefits and services. A particularly important reform was the decision to bring public pensions, health care, and social assistance together under one unified social security budget. The funds for social security were to come from a number of different sources: worker and employer contributions, taxes on company earnings and profits, a percentage of lottery revenue, and funds from federal, state, and municipal governments. Another related reform was to guarantee all Brazilians free and egalitarian access to public health services under the Unified Health Care System (US).

The 1988 Constitution included several other provisions important for pension policy: payment of a guaranteed minimum equal to one monthly minimum wage for all ongoing benefits (old-age, length-of-service and disability pensions); guaranteed non-reduction of benefits and protection of their real value against the effects of inflation; cost-of-living adjustments to bring all pensions back to their real values at the date of the original concession; an effort to correct inequities between rural and urban workers; payment of a guaranteed monthly pension to all destitute disabled persons and to destitute elderly people above the age of 70 independently of past contributions; lowering by five years of the age at which rural workers become eligible for old-age pension (to 55 for women and 60 for men); extension of the annual Christmas bonus, equal to one month’s salary, to retired persons and pensioners; guaranteed payment of a survivor’s pension to a spouse or companion and dependants in the case of the insured individual’s death (applicable to both men and
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women); calculation of old-age and length-of-service pensions (at 30 and 35 years of contribution) based on the average of the last 36 regular monthly salaries, corrected for inflation and the requirement that the insured individual contribute for at least three years to be eligible; and the right to assistance services whether or not a contributor (NEPP, 1989). Other benefits included unemployment, family and maternity allowances and work-injury benefits. The entire urban and rural population above the age of 60 (females) or 65 (males) was to be covered by a unified pension system which guaranteed at least the monthly minimum wage in effect for actively employed workers, social assistance, and health care (NEPP, 1989).

The new Constitution mixed substantial progressive reforms with a continuation of privileges and distortions from the past. These reforms had a substantial impact on rural workers and the destitute elderly, given the guarantee to pay all pensioners a minimum amount equivalent to one MW; prior to this time, the overall average had been roughly 50 per cent of one MW. Furthermore, lowering the age at which rural workers are eligible for old-age pensions and guaranteeing destitute elderly persons a minimum monthly income had the effect of raising revenue and bringing a substantial number of low-income and non-contributing people into the system. Despite these progressive changes, the Constitution maintained the length-of-service (LOS) retirement benefit, without any minimum age requirement. It also maintained the corporatist privileges enjoyed by teachers, who can retire after even fewer years of contribution (25 or 30 years) and who are permitted LOS pensions up to five years early on a pro rata basis.

The 1988 Constitution does not require workers to stop working as a condition for the receipt of pension benefits. Thus, those who complete the length of service required to become eligible for pension benefits but continue working may apply for a monthly bonus equivalent to a portion (currently 25 per cent) of retirement earnings. Furthermore, in some cases it is possible for an individual to receive more than one public pension.

Since the 1988 Constitution, Brazilian government and society have faced a complex problem: how to transform constitutional provisions into actual policies. Rather than battling out all differences at the time of the Constitutional Congress itself, for many groups the strategy was to postpone efforts to come to agreement on the details until a later date when the National Congress would translate the provisions of the Constitution into laws.

As it turned out, the breakdown of the "generic agreement" on which the Nova Republica had been founded, the 1989 presidential contest, the persistent economic crisis, and problems in the functioning of the relatively new Brazilian pension system all conspired to hamper compromise among the conflicting interest groups and to prevent the emergence of a hegemonic coalition committed to implementing the reforms contained in the 1988 Constitution (Castro, 1993).

Under the administration of Fernando Collor — elected in 1989, sworn into office in March 1990, and impeached on charges of corruption in December 1992 — Brazil's social security system underwent some minor changes. The new government merged and re-titled certain ministries and agencies. In addition it transferred health assistance to the Health ministry and social assistance to the Social Assistance min-
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...istry; both had been under the Social Insurance ministry since 1974.

The neoliberal orientation of the Collor administration, which stressed the need to restrict expenses, define selective policies, and privatize services, can be contrasted with the new Constitution’s universalistic conception of social rights in which the State is expected to play a major role with respect to the provision of social goods and services (Castro, 1993). Efforts during the Collor administration to emphasize economic stabilization and to dismantle the state machine paralysed the State, making its financial and administrative crises worse.

The new Constitution ushered in a period of political and judicial conflict, which brought Brazil’s public pension system to a state of crisis which had moral, managerial, and financial dimensions. Workers, elderly people, and pensioners all called for enactment of laws that would bring policy into compliance with the provisions of the 1988 Constitution: in some cases these groups began to take legal action. Pensioners’ organizations went to court to force the government to comply with certain provisions of the Constitution, whether these provisions had been enacted into law or not. The courts ruled in favour of the pensioners and as a result the government had to negotiate payment.

In mid-1991 the National Congress passed laws that put into effect the provisions in the Constitution dealing with public pensions. This legislation made it clear that progress with respect to pension policy had been made and reaffirmed the public character of the system. The most important provisions were as follows:

- there was to be a gradual ending of the still existing differences between the rural and urban pension programmes maintain-

ing the lower eligibility age for old-age pensions for rural workers, but with the provision that rural workers will be full contributors for all types of pensions in 2006;

- in an effort to reduce the inequities linked to the controversial length-of-service pension, the number of months of coverage required to become eligible for it would increase by six months each year from 1992 to 2012, at which time both of these pensions will require 180 months of coverage;

- the maximum earnings for the purposes of contributions and benefits became ten MWs (formerly 20).

The new legislation also specified that the standard programme was to be funded in part by graduated contributions of 8 to 10 per cent of earnings for employees and 10 to 20 per cent for the self-employed and employers. Corporations are required to pay a 20 per cent payroll tax (22.5 per cent for financial institutions). In addition corporations pay as taxes 10 per cent of net profits and 2 per cent of total revenues. Those who employ domestic servants pay a 12 per cent tax. The government contribution covers administrative costs and any deficits that may occur. These contributions fund the social security system, which includes pensions and social assistance.

The strengths and limitations of the Brazilian public pension system

The current system has two major structural problems. One is the funding mechanism. The 1988 Constitution and subsequent legislation did not resolve — and perhaps even aggravated — the problem of funding a universalistic social security system mainly from payroll contributions.
This approach poses a macroeconomic predicament. Revenue becomes linked to the cyclical movement of the economy; that is, it depends primarily on level of employment and real wages. In addition the approach promotes a shift of jobs from the formal to the informal sector, encourages fraud, creates a disincentive for job creation, and penalizes corporations that employ more workers (Oliveira, 1993).

Brazil has one of the most unequal income distributions in the world. One reason is that asset income plays a major role in national income. This undercuts the wage-based mechanisms used to fund the social security system and at the same time increases the demand for social protection. For example, in 1980 the poorest 80 per cent of the economically active population held 36 per cent of the national wealth, while the richest 10 per cent held 50 per cent (Gini index = 0.592). In 1989, these figures were 32 per cent and 52 per cent (Gini index = 0.635) (Reis and Cheibub, 1993).

For over a decade, Brazil has been mired in an economic crisis involving inflation, high unemployment rates, a shifting of jobs from the formal to the informal labour market, falling revenues, and increased poverty. By 1990 half of the economically active population were not contributing to the pension system (Britto, 1993; Médici and Marques, 1993).

The Brazilian public pension system continues to display both a social insurance dimension (under which benefits are granted to those who contribute and according to the amount of their contributions) and a social assistance dimension (under which benefits and services are extended to large segments of the population, independently of contributions) (Barros Silva and Médici, 1991). Although the creation of a unified social security budget was supposed to increase the system’s fiscal base, in practice contributions continued to fund both the pension system and social assistance, civil service pensions, much of the system’s administrative costs, and a large share of health care spending.

A second major structural problem with the social security system is its internal inequity — the persistence of privileges and distortions. While the statutes specify that virtually the entire population is now covered by at least one component of the social security system, internal differences in the provision of benefits remain large. Certain professional groups, such as teachers, receive length-of-service pension benefits after only 25 or 30 (as against 30 or 35) years of contribution, a right that only corporatism can justify. When the LOS benefit was introduced years ago, the intention was to protect the majority of Brazilian workers, whom poverty pushes into the labour force between the ages of 10 and 14. But in practice, the LOS benefit is utilized more by higher-income earners and those with a firmer footing in the formal labour market, while the poor typically begin receiving their pensions only at full retirement age or for disability.

It is very hard for the low-income population to maintain or prove a formal working relationship covering 30 or 35 years. The LOS benefit has thus been heavily criticized as socially unfair. In 1992, the number of LOS benefits being paid out equalled 24 per cent of the total number of LOS/old-age/disability benefits but represented 53 per cent of total expenditures (Britto, 1993, p. 12). Some 60 per cent of LOS benefits are earned by those under 54 years of age, but those who reach retire-
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...ment age live on average to age 72 (Carta do MPS, 1993).

Despite corporatist vestiges and the preceding structural problems in the Brazilian pension scheme, there has been a great deal of movement over the years towards the inclusion of an increasing proportion of the population. In 1990 the minimum guaranteed pension accounted for 4.2 per cent of urban and 7.9 per cent of rural pensions (Gonçalves, 1993). In mid-1993, on a monthly basis, 14 million pensions were being paid: 63 per cent to urban recipients and 37 per cent to rural recipients. By this time the number of rural benefits had already surpassed the number of urban benefits with respect to the number of old-age pensions and guaranteed monthly incomes for destitute elderly persons.

Although the average size of these pensions is low, the impact on the economic well-being of elderly people has been positive. In early 1993, 87 per cent of all pension benefits were under the three-MW level (i.e. under US$180 a month), and 55 per cent were equal to one MW (Brito, 1993). The MW averaged US$62.52 a month in 1992 (Vianna, 1992). Elderly people are guaranteed a minimum income that is more than the wages a majority of Brazilian workers earn. Recent data show that approximately 21 million families — mostly from rural areas — have wages of less than a half MW (Vianna, 1992). The income of most families increases upon the retirement of one of its members. This guarantee is particularly important to elderly people because so many have been active in the informal labour market (Prata, 1991). The pension system is somewhat redistributive in part because rural benefits are granted without demanding reciprocal contributions. While the Gini index for the distribution of income in Brazil is 0.64, for the pension system it is 0.32 overall and close to zero for rural pensions (Konder, Castro, and González, 1992). The Gini index for rural pensions is nearly zero because almost all rural pensioners receive the guaranteed minimum (one MW). The ten-MW ceiling on benefits ensures that the pension system is more equitable than the country’s overall income distribution. There is less inequality in the distribution of pension benefits than in the distribution of income generally.

With these strengths and limitations the system built over the past 30 years is under pressure from a complex network of interest groups that press the system both in the direction of maintenance of corporate privileges and in the direction of continued extension of protection to the entire population.

Policy changes, political effects

The extension of social security coverage to virtually the entire population during the era of the post-1964 military regime brought about a break with the “populist era”, and in the short run it did contribute to the legitimacy of the regime as intended. While the pension policy goals of the military regime were largely realized, there were a number of unintended consequences of these policies. One was that they made social security into one of the central arenas of Brazilian politics. During the early 1980s, opposition to military rule was particularly strong among a number of interest groups that emerged in response to these policy changes. The intention of much of this legislation had been to neutralize certain political and social organizations that did not support the military regime. While this goal was largely
realized in the short run, in the process these policy changes led to the emergence of new organizations that opposed the regime around issues related to social security.

One reason that the extension of pension system coverage was successful is that the goal of universalization was — at least formally — largely achieved. This led to a substantial increase in the size of the social insurance bureaucracy, to about 70,000 workers (Carta do MPS, 1993). These workers became an important constituency that used the political system to promote or oppose various social security policy developments. The policy changes also contributed to the emergence of new organizations and political groups that have become relevant actors in the social security policy arena.

The various political actors have been strong defenders of the current policy approach with its goal of universalism and its emphasis on public as opposed to private sector schemes. One of the political effects of policy developments during the past three decades has been the constraints they have placed on those who have advocated a shift to more neoliberal policies, toward privatization as illustrated by recent developments in Chile, or toward a mixed public and private system as illustrated by recent developments in Mexico (Hansell, 1992).

These social security policy changes have had an important impact on social identities as well. They have called for a shift away from a pension system based on discrete professional categories to a much more unified system. The inclusion of a much greater fraction of the population also contributed to a more homogeneous identity among pensioners: one based on being elderly as opposed to having worked in a particular industry (Haddad, 1992).

This new identity was one of the many unanticipated consequences of the pension legislation of the 1960s and 1970s. Another such consequence was the unionization of rural workers and the increase during the 1980s in the power of CONTAG, one of the most important organizations in the pension policy arena and a defender of more egalitarian and more universalistic pension policies.

Several organizations representing elderly people and pensioners have also emerged, in part as a response to democratization and in part as a response to the pension legislation of the 1960s and 1970s. While most such organizations are small and lack the ability to mobilize large segments of the population on the basis of age (Haddad, 1992), they have been able to make a number of important policy gains during the 1980s and 1990s. As Imm every (1990, 1992) points out, it is sometimes possible for apparently weak groups to achieve their policy objectives by taking advantage of opportunities provided by both the political institutions and the legal system. In the end the gap between the principles enunciated in the Constitution and their translation into law by the legislature stimulated the emergence of pensioners as a political force.

By the mid-1980s the democratization process had progressed to the point that organizations representing the interests of pensioners were beginning to be influential (Williamson and Pampel, 1993). The process of writing a new Constitution and certain provisions in it opened up new channels of influence. Of particular importance is the provision that organizations (including those of pensioners) can bring legal claims to the courts. This provi-
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Pension policy has made it much easier for pensioners to make use of the judicial system to realize their policy goals.

In the years ahead success in promoting their policies and bringing claims to the courts will contribute to the growth of these pensioners’ organizations and to the visibility of the old-age movement. However, the increasing power of organizations representing elderly people will also promote competition and conflict with other interest groups in the social security arena. During the past decade, alliances among various organizations interested in pension policy have been much more successful in vetoing policy changes they opposed than in getting initiatives they favoured adopted. Many interest groups, not just elderly people, have used their legislative influence to veto such changes and to obtain privileges for their group. All groups have found it more effective to go to the courts in their efforts to achieve important policy initiatives.

Pension policy has been perceived by most groups as an arena in which it is possible for one group to get more benefits without other groups as a result getting less; that is, it is viewed as a non-zero-sum game. Brazil’s corporatist legacy and this perception help explain why the nation’s social security system combines near-universal coverage with special privileges for many groups.

Consistent with Pratt’s (1993) thesis, the Brazilian experience illustrates that while politics and social factors shape old-age policy, these policies in turn reshape politics and society. The unintended effects of the political decision to extend pension coverage ended up working against the reasons why the post-1964 military regime extended it in the first place. The social and political results of this policy, in combination with the political opportunities due to democratization, produced complex political dynamics. The emergence of national organizations representing pensioners and rural workers, for example, was an outcome of this process. Such groups became key actors in the subsequent politics of pension policy. As a result strong support has emerged for the statist character of the pension system. This development also makes dramatic changes in pension policy less likely; the interest groups will be able to use democratic procedures in order to oppose major changes.

The process of the extension of coverage can, as in the Brazilian case, have a number of unintended consequences, some of which make certain types of future policy change more difficult to introduce. Privatized schemes along the lines of Chilean policy will be more feasible and more likely to be adopted in countries without social insurance schemes and in countries in which existing social insurance schemes cover a relatively limited portion of the population (Williamson and Hochman, forthcoming).

In nations such as Brazil that have an old and well-developed public pension scheme in place covering a substantial fraction of the population, there is likely to be strong resistance to major structural changes in programmes. However, there will be support for expanded coverage and increases in benefit levels, particularly from the various groups that have grown up in response to the introduction of these programmes and to the major changes that were made in the past. Opposition to new structural changes may come from pensioners, those near retirement, those in the social security bureaucracy, and those who are privileged in one way or another in
connection with the current scheme. But the structural problems of funding and the presence of inequities and distortion can produce agreement for some changes. In this case the most likely change will be in the direction of some type of second-tier scheme, possibly along Mexican lines.

Brazil shares with many other Latin American and Third World nations the recent emergence of democratic institutions. Many of these nations face a need to reduce the prevalence of poverty and to increase the level of social protection. In Brazil the social security system has been used to reduce the degree of income inequality, particularly between rural and urban workers. This is in sharp contrast with the Chilean approach that seeks to be neutral with respect to income distribution. Our analysis has implications for many newly democratic nations facing the conflicting demands of policies that foster economic development, deal with existing poverty, and provide for long-term social security protection.

Notes

1. The Brazilian Constitution goes well beyond a set of basic principles and definitions of functions and powers, entering into considerations usually left to the domain of lawmaking. For example, it determines that contributions to the system should be paid by the employers and by the insured; the precise percentage of each party’s contribution is, however, left to the discretion of legislators, who are expected to specify the amounts in “supplemental laws”.

2. This largely unannounced provision may in the long run turn out to be the most controversial aspect of the new legislation.

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