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# EVALUATING THE EFFICIENCY OF THE PUBLIC EXPENDITURE

Rogério Boueri\*

Brazil has been going through a strict fiscal regime in these last years. The generation of successive fiscal surpluses is aimed at reducing the debt-GDP ratio, which would create conditions for sustained reduction of the domestic interest rates and resumption of economic growth.

The problem with this strategy is that it is reaching the limit of its effectiveness. This occurs, on the one hand, because the policy of obtaining fiscal surpluses has been strongly based on the increase of the tax burden, which in the view of many analysts has already reached its top limit. On the other hand, the meeting of social demands has been achieved through considerable increases in government transfers.

A third obstacle for the continued use of the surplus generation policy is the increasingly less sustainable compression of the government's investment expenditures. In order to resume sound growth, Brazil needs high investment in infrastructure and much of it will have to be made by the federal government, since most of the economic infrastructure of the country depends on public investment. The need for this type of investment made the government launch a coordinated action, the Growth Acceleration Plan (CAP) in order to reverse this obstacle to growth.

One of the means for the government to maintain fiscal surpluses and still play an effective role in the promotion of economic development is the improvement of the quality of public spending. This alternative would allow the social demands for public services to be met, at least partially, at decreasing costs, that is, without added tax burden. Thus, it would be possible to reconcile the pressure for more services with the restriction imposed by the limit to taxation.

However, the path towards an overall improvement in the efficiency of public expenditure in Brazil is long. The first step is to try to assess and measure the magnitude of the waste of public resources. Without the notion of how much more is spent than necessary, it is hardly possible to establish reasonable goals for the reduction of such waste.

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The third part of this volume addresses the theme of assessment and measurement of the inefficiency of government action at its various levels. The purpose is to indicate paths for more efficient government action, in its various modalities, assisting in the identification of waste-generating points in the government's actions, in the measuring of the magnitude of this waste and in the formulation of public policies capable of containing such waste. This third part contains five articles that address this theme.

The first, written by Antonio Afonso, begins with an overview of methodologies currently used in economic literature with a view to measuring the level of efficiency of the public sector, developing the criterion of *relative State efficiency*. From then on, it draws international comparisons of the performance of the governments of various countries. Such comparisons are based on the goals to be reached and the means available to reach them.

In the second article, Marcos Mendes, in a more specific text on the Brazilian case, attempts to explain some of the causes of the inefficiency of public spending in our country, and suggests public policies that would attenuate the problem. With this aim, the author focused on the analysis of the institutional and political factors, as well as historical traits of Brazilian society, such as high degree of inequality, which play a role in the low efficiency of public expenditure. This approach highlights that, as necessary as the identification of the problem of inefficiency of public spending per se, is the political engineering for the design of reforms to minimize or suppress this problem.

After that, in the third article, Rogério Boueri evaluates the sum of resources that could be saved if the Brazilian municipalities spent budgetary resources for health, education and urban infrastructure more efficiently. Efficiency is defined as the action of the best-performing municipalities. The inefficiency's geographic distribution and distribution by population bracket is also analyzed, as well as the existence of scale gains in the municipal public production. The importance of this analysis lies in the fact that municipal expenditures have grown along the last years, reaching approximately 66 billion dollars in 2005 (or 15% of the total public expenditure). In addition, there is a perception, not proven empirically, that in the municipalities the waste of resources would be proportionally more serious than in the other federative spheres.

The fourth article, authored by Márcio Bruno Ribeiro and Waldery Rodrigues Júnior, compares the efficiency of public expenditure among Latin American governments. The main motivation for this study comes from the fact that some of the largest countries of the region (such as Argentina, Brazil, Chile, Colombia and Mexico) adopted, along the eighties and nineties, structural reforms

that encompassed both the public sector and other sectors and institutions, aimed at achieving fiscal balance and improving economic activity. Such reforms were market-oriented and, after some years, it is claimed that continuous economic growth and increased social equity have not been reached in most of the countries in the region. Thus, a quantitative/comparative survey can help in a more precise assessment of the differences with regard to efficiency of public expenditure among Latin American countries. Particularly, in the comparison with those countries that led the adoption of reforms in the region and where the reforms went deeper, as seems to be the case of Chile and Mexico.

Finally, the fifth article, "International Comparative for Social Security", written by Marcelo Abi-Ramia and Rogério Boueri, compares social security expenditures in various countries, considering the social, demographic and economic conditions of each one of them. Thus, the article attempts to evaluate such expenditure in relation to the structural possibilities of each country.

With this set of articles, this volume seeks to collaborate towards the improvement of the quality of public spending, a factor that is considered a necessary condition for economic development, as well as a crucial factor in overcoming social inequalities in Brazil.

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