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GOVERNMENT CURRENT ACCOUNT SAVING: A NEW FISCAL POLICY PROPOSAL

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In the last years, even among economists concerned about the sustainability of the Brazilian public debt, there is an increasing dissatisfaction with the fiscal policy of primary surpluses obtained by means of public investment reduction, since this policy represents an obstacle to economic growth. Thus, there is a recurrent view that the maintenance of effective fiscal austerity must be combined with increased public investments.

In this sense, in line with renowned economists such as Blanchard and Giavazzi, we propose an alteration in the current fiscal policy, in order to maintain fiscal austerity and increase the level of public investment, that is, we propose to replace the fiscal target based on primary surplus with a target based on government current account saving. Since it does not undermine the rise of capital supply, one of the determinants of economic growth, the concept of government current account saving is economically more appropriate than that of primary surplus.

However, a question related to this replacement is whether the use of government current account saving is not more of a fiscal slackening than a policy change justified by economic theory. Thus, we evaluate this proposal from the point of view of fiscal sustainability, that is, we analyse whether the change from the primary surplus target to government current account saving leads to an alteration in the course of the public debt/GDP ratio.

In order to establish relations for the construction of scenarios, we estimated self-regressive vector models, in which the results confirm the intuition that the increase of public investment can contribute to the increase of economic growth. Given this relation, we studied possible courses for the Brazilian public debt to GDP ratio both in an environment of fiscal target based on primary surplus and in an environment of fiscal target based on government current account saving.

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The simulations of the scenarios are based on a primary surplus target of 4.25% of the GDP and on a target of government current account saving of 7.65% of GDP, which corresponds to a similar target of a primary surplus of 4.25% of GDP, since in the 1999-2005 period the average of public investment is of 3.40% of GDP. According to our simulations, as public investment increases, the rate of economic growth rises.

Regarding the real interest rate, we made projections according to three states of nature, based on real interest rates of 12%, 11% and 10%. In the first state of nature (real interest rate of 12%), in the environment of fiscal target based on primary surplus, in a ten-year horizon, the public debt /GDP ratio grows about 5.5 percentile points (p.p.) of GDP (table 1); in the environment of fiscal target based on government current account saving, the public debt/GDP ratio grows approximately 6.3 p.p. of GDP (table 2).

TABLE 1
Simulations for the public debt (primary surplus)
(In%)

	T+1	T+3	T+6	T+10
r=12%; n=2.5	51.59	52.78	54.57	56.95
r=11%; n=2.7	50.98	50.94	50.89	50.83
r=10%; n=3.0	50.32	48.96	46.92	44.20

Source: Brazilian Central Bank.
Prepared by the authors.

TABLE 2
Simulations for the public debt in a scenario of implementation of fiscal target based on government current account saving

	T+1	T+3	T+6	T+10
r=12%; n=2.5%	51.70	53.11	55.22	58.04
r=11%; n=2.7%	51.11	51.35	51.70	52.17
r=10%; n=3.0%	50.47	49.42	47.85	45.75

Source: Brazilian Central Bank.
Prepared by the authors.

In the second state of nature (real interest rate of 11%), in the environment of fiscal target based on primary surplus (table 1), in the next ten years, the public debt is stable and in the environment of government current account saving it is virtually stable, since there is an addition of about 1 p.p. of GDP (table 2). In the third state of nature (real interest rate of 10%), along the next ten years, in the environment of fiscal target based on primary surplus (table 1), the public debt drops approximately 6 p.p. of GDP and, in an environment of fiscal target based on government current account saving (table 2), the public debt drops about 4 p.p. of GDP

Therefore, the results show that the adoption of the concept of government current account saving does not result in any substantial alteration in the course of the public debt/GDP ratio. In the scenarios where the public debt/GDP ratio is unsustainable, it is both with the primary surplus target and the government current account saving target. It should be noted that, although the course of the public debt/GDP ratio is practically the same in the primary surplus and government current account saving environments, in the latter, since public investment is not discouraged, our estimates suggest a higher growth rate, increasing general welfare.

A second issue regarding the adoption of the government current account saving is related to its implementation, since there is a strong incentive for public managers to account for current expenses as public investments. Nevertheless, we understand that this window of opportunity can be exhausted relatively easily. In the first place, in the federal government, in the Ministry of Finance, the National Treasury Secretariat (MF/STN) has a General Coordination of Economic-Fiscal Analysis of Public Investment Projects that, among others functions, evaluates and monitors investments made through Public-Private Partnerships. With this function, attention is drawn to the fact that this Coordination is fully capable of evaluating or distinguishing current expenses from expenditure that should be labelled as investment.

Since this institutional framework is located within the federal government itself, another possible argument is that this might suffer “political” pressures. Therefore, the process of deciding what investment is might not be transparent enough, and based on exclusively economic criteria. Two simple solutions are presented for this possibility: *i*) to include in the Law of Fiscal Responsibility (LRF) severe penalties for the manager who intentionally indicates current expense as investment; and *ii*) in the LRF, regarding the monitoring and control of the implementation of the government current account saving, including recommendations to the Federal Court of Accounts (TCU), an agency outside the Executive Branch responsible for the auditing of federal expenditure.

As regards the state and municipal governments, similar structures to the General Coordination instituted in the MF/STN can be implemented. Moreover, external audits should be carried out by courts of accounts responsible for the state and municipal expenditures, respectively. Obviously, the inclusion of penalties in the LRF is valid for all the Federation entities.

Thus, there are no practical or theoretical obstacles that might undermine the adoption of the government current account saving target as a fiscal policy instrument. Furthermore, it should be noted that, beyond the possible gains in economic growth, the implementation of this concept does not suggest a slackening of the fiscal austerity pursued by the Brazilian Federation entities in recent times.