

Título do capítulo	CHAPTER 11 INEFFICIENCY OF PUBLIC EXPENDITURE IN BRAZIL
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DOI	
Título do livro	ASPECTS OF THE FISCAL DEVELOPMENT
Editor (es)	Rogério Boueri Maurício Saboya
Volume	
Série	
Cidade	
Editora	Instituto de Pesquisa Econômica Aplicada (Ipea)
Ano	2007
Edição	1ª
ISBN	
DOI	

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INEFFICIENCY OF PUBLIC EXPENDITURE IN BRAZIL*

Marcos Mendes**

The aim of this article is to show that the pattern of public expenditure generation in Brazil is far from efficient. Some of the causes of this problem are indicated. In the first place, the 1988 Constitution, which represented an option for state intervention in the economy, assistentialism and protection of specific interests. Secondly, the dispersion and weak coordination of political power in the democratic system instituted in 1984, which weakened fiscal control. Thirdly, the weakness of the institutions and organizations responsible for control, coordination and planning of public programs, as well as for the enforcement of budgetary restriction.

Here, a government is considered efficient if it manages to fulfil the main functions that belong to it in a capitalist economy within a democratic political regime and, at the same time, is capable of minimizing the problems and distortions that result from its actions.

The literature¹ indicates that the main function of the public sector is to compensate for so-called “market failures”, that is, to provide goods and services that the private market is unable to provide in a satisfactory manner, which I will call, throughout the article, “the six functions of an efficient government”:

- 1) guaranteed right to property and other individual rights and freedoms: judicial, police and prison systems;
- 2) macroeconomic stability: control of inflation, economic growth, easing of economic cycles, equilibrium in the balance of payments;
- 3) reduction of inequality and poverty: access to minimum conditions of basic sanitation, health, education, housing, social assistance, etc;

* This article is partially based on the book *Gasto público eficiente: 91 propostas para o Brasil* (Instituto Fernand Braudel/Topbooks), organized by the author.

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1. See Arvate and Biderman (2006).

- 4) supply or subsidy to production of public goods and goods that generate positive externalities: technological innovation, universal access to education, environmental protection and recovery, national security, roads, etc;
- 5) regulation of natural monopolies and free market defence;
- 6) solution of imperfect information problems: availability of information on credit risk, education financing, regulation of health plans and insurances.

A necessary condition for the efficiency of a government is, therefore, to fulfil these six functions in a satisfactory way. However, it should be noted that when taking on the function of correcting the “market failures”, the public sector incurs in “government failures”. Firstly, the public sector has less incentive than the private sector to minimize costs and pursue increased quality. Secondly, the politicians and bureaucrats who operate the state apparatus can use their power in rent seeking for themselves or on behalf of certain social groups. This increases the costs and reduces the quality of the public services.

Thirdly, the political process of collective decision-making on the actions of the State can result in high public expenses, demanding high public taxation and indebtedness, leading to the crowding out of private investment and undermining the balance of prices and economic growth. Fourth, the public actions depend on laws that determine their execution. Given that the approval of laws is a slow process, the public sector tends to be less agile than the private sector in making course corrections and adjusting targets, and is also subject to the continuation of privileges provided for in law

An efficient state, which maximizes results in the overcoming of market failures and minimizes the adverse impacts of its intervention, is a necessary condition for a country to develop, not only achieving an increase of its per capita income but also offering equal opportunities for all its citizens, by means of competition by merit, to compete for the allocation of public and private resources to innovative projects that have a high social return. On the other hand, an inefficient state is that with artificial creation of income (market reserves, perpetuation of monopolies, compulsory allocations of public resources, use of State apparatus in favour of the bureaucracy), with no concern with the effective reduction of income inequality and equal opportunities, or with the final quality of the public service rendered.²

2. North, Wallis and Weingast (2006) offer a detailed analysis on how societies based on equal opportunities and access manage to consolidate economic development, while those based on income creation through the State tend to fall back.

The argument here is that in the Brazilian State model, created with the re-democratisation process of 1984 and the 1988 Constitution, the quality of the services is low and the costs generated by the “government failures” are significant. Therefore, it is necessary to raise the efficiency of public spending as an instrument of economic and social development.

1 RE-DEMOCRATISATION AND THE NEW CONSTITUTION

Some circumstances of the historical moment when the re-democratisation took place were determining for the model of State created in the 1988 Constitution. It was enacted on the 5th of November 1988, one year before the fall of the Berlin Wall, a historical episode that marked the end of the socialist utopia and that was followed, almost throughout the planet, by the age of privatisation, trade liberalization and concentration of state activity in the “six functions of an efficient government” described above, with emphasis on pro-market reforms, strengthening of property rights and increased access to education.

If the new Constitution had been written in the early nineties, possibly its text would have been less influenced by the ideal of a large, assistentialist and nationalistic State. Such principles, in general, make room for organized segments to introduce in the legislation restrictions to competition, reserves of public resource allocations and obligatory expenses that generate or perpetuate privileges. The result is high expenditure and low efficiency.

Added to this, there is the historical accident of the death of Tancredo Neves before taking office as the first civilian President. The emerging, recently-installed democracy did not have solid institutions and depended on the strength and political capacity of the President to form majority coalitions and to implement a government program.³

Throughout the campaign for direct elections, Tancredo managed to establish a support network to rule the Country. However, his vice-president, José Sarney, took office in March 1985 without enjoying the same prestige. His political weakness prevented the Executive from influencing decisively the drafting of the Constitution. The Constitution began to be designed on the basis of a collage of interests of the various lobby groups represented in the parliament, without any concern for costs and means of funding of public expenditures that the new Constitution rendered obligatory.

3. On the political model instituted with the re-democratisation, see Cintra (2004).

The aim of earmarking funds for each interest group became more important than the organization of an efficient service-rendering State. The Executive, which should have ensured a balance, demanding that expenditures resulting from constitutional determination should fit within the budgetary restriction, did not have the political strength to do so.⁴

That is, the “social contract” established in the new Constitution, which rules the action of the State, was old from the day it was born, and was drafted at a time of weak coordination and dispersion of political power. Once this inadequate contract is established, it is difficult to change it, both because institutions are not easily changed, and because the winners of the competition for allocation of resources form coalitions to veto constitutional reforms.

But the organization of the Brazilian State in the last years cannot be attributed only to historical accidents. Behind the dispersion of political power, and a Constitution concerned with establishing privileges, there seems to be an important trait of Brazilian history: the huge social inequality, which generates dispersion of interests. As suggested by Rajan and Zingales (2006), the coexistence of a small educated middle class with a great mass of uneducated poor, in a closed and very regulated economy, constitutes a scenario of little changes and rent seeking through the State (“rent-oriented society”). The opposition to market liberalizing reforms was conducted not only by segments of the industry. The poor would not be interested in such reforms either, not having enough human capital to make the most of the new opportunities that were emerging in a free-competition economy, preferring to guarantee incomes through state assistance programs. The middle class, more educated, would have been the main beneficiary of economic liberalization, but opposed the expansion of education (of interest to the poor), because this would allow the poor to compete in equal conditions.

The result was the blocking of reforms aimed at an efficient state that would generate an increased level of income for all. Simultaneously, there was pressure for poverty reduction measures through public spending, which coexisted with the political capacity of middle and high income segments to maintain the public programs that favour them. In this model of “public spending for all”, expenditure took a path of accelerated growth: the non-financial current expenditure of the Union, for example, rose from 18% to 22.4% of the GDP between 1995 and 2005. This corresponds to a real growth of per capita expenditure of 4.5% a year.⁵

4. As to influencing the decisions of the Constitutional Assembly, the fact that Sarney concentrated efforts on approving a transitory provision of the Constitution that ensured an extra year in office is emblematic.

5. Source: National Treasure Secretariat and IBGE.

Attention should be drawn to five characteristics of the State model defined by the 1988 Constitution that lead to the growth and low efficiency of public expenditure:

- 1) rigidity of spending through the determination of obligatory expenditures in the text of the Constitution and of the complementary law;
- 2) electoral bias of the social programs with no concern with cost-benefit evaluation and without eliminating privileges;
- 3) fiscal decentralization model that stimulates inefficiency;
- 4) distortion in the principle of the autonomy of the three powers;
- 5) weakness of the organizations and institutions responsible for enforcing budgetary restriction and control, coordination and planning of public administration

Each one of these points is analysed below.

2 RIGIDITY OF SPENDING⁶

The various segments interested in absorbing federal resources sought, during the drafting of the Constitution and the complementary legislation, to ensure captive sources of resources in their favour. The best way to do this was to establish, in the Constitution or the legislation, a certain amount or obligatory minimum spending parameters in the area that was to be privileged.

The great winners of the dispute for resources during the drafting of the Constitution were the states and municipalities. Emerging from a dictatorship, when revenue was strongly concentrated in the Union, the cause of decentralization of resources was identified and confused with the cause of re-democratisation. Thus, the percentages of federal taxes transferred to the sub-national governments were very high.⁷

Also included in the Constitution, with a wealth of detail, were benevolent criteria for the concession of retirements and pensions, as well as full indexation of the benefits to the minimum wage. With this, any rearrangement of the social security model would have to face the high quorum and the two turns of voting required for constitutional reforms. Two social security reforms have

6. See Velloso (2006).

7. There is a synthesis of this process in Mendes (2005).

entered the Congress big and come out small, without managing to reduce the huge and increasing weight of social security in the total expenditure.

Equal treatment was given to the labour benefits, such as wage allowance and unemployment insurance; explicitly defined in the Constitution as nonnegotiable rights in the private scope and that have a significant impact on public spending because they are funded by obligatory contributions imposed on employers and workers (besides demanding a heavy labour justice structure that consumes more than R\$ 6 billion a year).

After that, the approval of the Organic Law of Social Assistance⁸ and of the Statute of the Elderly⁹ introduced and/or expanded social benefits to the elderly and the physically disabled. The health sector got its “permanent share” by inscribing in the Constitution the obligatory rise of expenditures in that area at the same pace of the nominal variation of the GDP.¹⁰

The incapacity to establish a personnel policy based on objective criteria for the basic public administration careers, adequate remuneration structure, criteria for reallocation and dismissal of staff, etc. resulted in an ad-hoc policy of contracting and remuneration, executed on the basis of political pressure from the careers, unions and agencies. It no exaggeration to say that the personnel policy meets, first, the needs of the corporations and only secondarily the public interest. A legislation based on the tenure of civil servants and with little incentive to productivity completes the picture of rigid and unproductive personnel expenditure.¹¹

Adding to this list other obligatory expenditures (investments and activities initiated in previous years), the result is that more than 90% of the federal budget expenditures are pre-defined.¹² It is important to note that these expenditures are not only rigid. A significant share of them is also “superindexed”. That is, most of them are readjusted at a higher rate than inflation (in the case of health, by the variation of the GDP; in the case of social security, social and labour benefits, by the variation of the minimum wage).

8. Law n. 8.742, of 1993.

9. Law n. 10.741, of 2003.

10. Constitutional Amendment n. 29, of 2000.

11. See Guerzoni (2006).

12. See Lima and Miranda (2006).

Thus, the trend is that, every year, they will represent a bigger percentage of the total expenditure. To have an idea of this growth, in 1987, according to Velloso (2006), the obligatory expenditure represented only 47% of the total expenditure.

The rigidity of the expenditure has several negative effects on the efficiency of public spending. In the first place, those who rely on previously defined appropriations do not need to make an effort or demonstrate efficiency in the administration of the resources as a means to apply for more. Secondly, the priorities of a country are not unchanging; so establishing in law rigid and invariable shares of resources for each area prevents the distribution of resources according to changing priorities. Third, because the obligatory expenditures established in law may contain a bias contrary to equity or the development needs of the Country (a typical example is the bias against children, commented further ahead). Fourth, because the accelerated growth rate of this expenditure demands increasing extraction of resources from the private sector in favour of the public sector, transferring resources to a less efficient sector and undermining economic growth.

3 ELECTORAL AND SHORT-TERM BIAS OF THE SOCIAL PROGRAMS AND PERPETUATION OF PRIVILEGES

With the re-democratisation and resulting introduction of direct elections for the offices of President of the Republic and State Governors, the huge constituency of low income voters became crucial in deciding elections. The politicians could please this constituency by offering efficient poverty and inequality reduction programs (for example, education). However, given the difficulty in achieving consensus in an unequal society, the lack of interest of the richer classes in the education of the poor (commented above), and the high rate of discount that the poor have in relation to the future (since they are worried about immediate survival); have lead to the choice of second best in the search for support from the poorer electorate: the expansion of assistentialist programs (distribution of goods and money) and regulation of prices and incomes (minimum wage, retirements).

This choice has a high cost in terms of efficiency of public spending. In the first place, because the poor, once they have an income artificially guaranteed by the State, regardless of the macroeconomic situation, stop worrying about (and demanding) fiscal sustainability of the public programs: it matters little if the expenditures that benefit them are creating a fiscal imbalance that will reduce the potential growth of the economy; since their income is already (artificially) guaranteed *a priori*.

Secondly, the social expenditures tend to focus on the programs that benefit the people who vote more directly. The big losers, in this case, are the children, who do not have the right to vote. Thus, the search for votes tends to be done through programs that benefit adults (increasing the value of the retirements, adult literacy courses, payment of social benefits to the elderly, real readjustments of the minimum wage). The result is that there is not enough investment in the education of the citizen of the future, creating conditions for people to overcome poverty through education and the protection of children against degrading situations.

The impact of this bias in favour of the elderly in overcoming poverty (one of the “six functions of an efficient government”) is small. As demonstrated by Paes and Barros and Carvalho (2006), only 5.9% of poor families and 2.5% of extremely poor families have elderly members. On the other hand, children and adolescents under the age of 15 are present in 79% of poor families and 82% of extremely poor families. Likewise, the insistence on real readjustments of the minimum wage as a social policy instrument does not seem to be an appropriate path. The same authors note that only 14.5% of the poor families have at least one member receiving remuneration close to one minimum wage.

This small capacity to reduce poverty and inequality contrasts with the high fiscal cost of these politics. The real increases of the minimum wage between 1999 and 2006, for example, represented an additional expenditure of R\$ 62.6 billion in social security benefits, in comparison with a situation where the readjustments of the minimum wage were equivalent to the variation of the National Consumer Price Index -INPC.¹³

Even the social policies that manage to reach the poorest, which is the case of the *Bolsa Família* Program, have not yet shown signs that they are capable of creating conditions for consistent reduction of poverty. Since the major interest is in winning votes in the next election, there is no effort on the part of the managers to demand the fulfilment of the conditionalities for participation in the Program, in particular, the children’s school attendance; or to improve the conditionalities and the monitoring of their fulfilment.

On the other hand, while the social programs expanded, the mechanisms of privileges for the middle and high classes, built along the military government and expanded or consolidated by the 1988 Constitution, were not eliminated.

13. Value in average Reais of 2006, accumulated in the 1999-2006 period. Sources: Ministry of Social Security and IpeaData. Calculated by the author.

The main example is the free-of-charge provision of university courses in public institutions, attended mostly by high-income students. This expenditure is carried out to the loss of basic and secondary public education, attended by the lower-income families. The social security regimes of the public sector and the private sector, in turn, maintain eligibility criteria for retirements and pensions that can be classified among the most benevolent in the world.¹⁴

Other typical cases of privilege can be mentioned, such as the fact that the wages paid by the public sector are higher than those paid in the private sector.¹⁵ The public funds used for protection of workers (FGTS, FAT, PIS/Pasep), in turn, benefit only the workers employed in the formal sector, excluding the mass of poor people with precarious employment links. Furthermore, the tax resources that compose these funds are used to finance public institutions such as the Brazilian Development Bank (BNDES) and the Federal Savings Bank (Caixa), and a large share is consumed by low administrative efficiency and captured by the corporations.¹⁶

In short, with the inclusion of the poor voter in the decision-making process on public expense, an expansion of the social programs is to be expected. This, however, could have been partly funded by the reduction of privileges, since this type of benefit does not fit in any one of the “six functions of an efficient government”. And the social programs, in turn, could be less biased and more efficient in the reduction of poverty.

4 FISCAL DECENTRALIZATION MODEL¹⁷

The fiscal decentralization model designed in the 1988 Constitution was based on transfers: the Union and the states collect the main taxes and transfer to the municipalities a significant share of these revenues. As seen above, the states and municipalities constitute one of the successful groups in the rent seeking that took place during the drafting of the Constitution. While in most federations the transfers represent approximately 30% of the local revenue, in Brazil this participation exceeds 60%, and in 73% of the municipalities such participation exceeds 85%.¹⁸

14. See Caetano (2006).

15. See Bender and Fernandes (2006) and Moriconi *et al.* (2006).

16. Kohler (2006), for example, shows that the remuneration rules of the Federal Savings Bank for the position of operating agent of the FGTS are extremely eneficial to the Bank, and such remuneration is a relevant part of the results of the institution. Such incomes account for almost half of the institution's expenditures with the payroll.

17. See *Gasto público eficiente*, chapter 7, by Fernando Blanco and Carlos Eduardo Gasparini.

18. Source: National Treasury Secretariat.

Economic literature has already shown that the excessive use of transfers induces growth and deterioration of the quality of the local governments' spending.¹⁹ In fact, as shown by Blanco (2005), in Brazil, the response of municipal public spending to an increase in transfers is 65% greater than that derived from an equivalent increase in the income of the average voter. As regards the quality of the expenditure, Blanco (2005) found that as the importance of transfers in the municipal revenue increases, the overhead (expenditure with the bureaucracy in the central administration, planning and the legislative) increases and the expenditures in infrastructure and social policy drop, possibly indicating a picture of increased capturing of incomes as the importance of the transfers in the local revenue increases.

An additional distortion occurs in the Brazilian case, where the transfers are biased in favour of the small municipalities (less than ten thousand inhabitants), which stimulates the fragmentation of large municipalities into smaller entities, multiplying the administrative apparatuses and reducing operation scales.

The sudden rise of available resources in the hands of municipal administrations with low technical qualification, in communities with weak mechanisms to control public action, left room for a lot of inefficiency, corruption and capturing of public resources. Gasparini and Melo (2004), for example, evaluated the management of the municipalities of the States of Pernambuco and Rio Grande do Sul and showed that in 2000 the municipalities of the two states wasted 24% of the resources used in the State of Pernambuco and 28% in the Rio Grande do Sul.

5 DISTORTION IN THE PRINCIPLES OF AUTONOMY OF POWERS²⁰

A striking trait of the 1988 Constitution was the recovery of the autonomy of the legislative and the judiciary, which had been controlled by the Executive during the military government. Thus, the Constitution granted to those powers administrative and financial autonomy²¹ that basically consists of freedom to determine their own budget. The constitutional construction that, correctly, was created to hinder any manipulations and pressures on the part of the Executive,

19. For a synthesis of this literature, see *Gasto público eficiente, chapter*, by Fernando Blanco and Carlos Eduardo Gasparini.

20. See *Gasto público eficiente, chapter 6*, by Marcos Mendes.

21. The Public Prosecutor's Office (agency of the Executive) and the Court of Accounts of the Union (linked to the Legislative) received the same autonomy, to be able to exercise its inspection and oversight actions fully.

ended up generating opportunities for the bureaucracies of the other powers to grow and appropriate even bigger shares of the public budget.

The real expenditure of the Judiciary increased tenfold between 1984 and 2004, going from 0.11% to 0.84% of the GDP. In the same period, the expenditure of the Legislative rose from 0.13% to 0.28% of the GDP and of the Public Prosecutor's Office from 0.03% to 0.09%.²² The wages paid in these powers far exceed those in the Executive: in 2006 the average monthly expenditure with staff in the Executive was of R\$ 3.7 thousand, against more than R\$ 10 thousand in the Legislative, Judiciary and the Public Prosecutor's Office.²³

This type of privilege is repeated at the state and municipal levels. The most recent aggregated data available, referring to 2003, allow one to estimate a total cost of the Judiciary, Legislative, Courts of Accounts and Public Prosecutor's Offices, at the three levels of government, of the order of R\$ 41.3 billion.²⁴ This amount, corrected by the inflation up to 2006, would exceed R\$ 50 billion.

6 WEAKNESS OF THE ORGANIZATIONS AND INSTITUTIONS THAT ENFORCE BUDGETARY RESTRICTION AND CARRY OUT CONTROL, COORDINATION AND PLANNING OF THE PUBLIC ADMINISTRATION.

Since the beginning of the re-democratisation there were significant advances in the quality of the organizations and institutions intended to promote fiscal balance. Attention should be drawn to the creation of the National Treasury Secretariat, the Central Bank's moving away from the financing of fiscal expenditures, the programs of extinction/privatisation of public companies and state banks, the program of fiscal adjustment of states and municipalities, the approval of the Law of Fiscal Responsibility (LRF). However, this impulse lost force in the last years, and new stages were not pursued and even experienced setbacks. In this section, I address the following points: the weakening of the LRF, the weaknesses of the federal budget, the lack of effectiveness of the courts of accounts and the biased process of election of politicians.

The LRF is running the risk of becoming dead letter due to a combination of factors such as: its provisions are not fully regulated, intense use of casuistry to dodge the limits of expenditures imposed by the Law and non-enforcement of the envisaged penalties on the offenders (loss of credibility).

22. Sources: Court of Accounts of the Union and Central Bank. Calculated by the author.

23. Source: Personnel Statistical Bulletin. Ministry of Planning.

24. Sources: Court of Accounts of the Union and National Treasury Secretariat. Calculated by the author.

The main regulation omission in the Law is the non-installation of the Fiscal Management Council (FMC). The FMC would have the main function of verifying the practical problems in the enforcement of the Law and issuing standards and guidelines with a view to tackling them. This would allow the limits of expenditure and indebtedness, provided for in the LRF, to be detailed and complied uniformly by all the federate units. Since the FMC was not installed, each federate unit interprets the concepts of personnel expenditure, net debt, etc. in the most convenient way so that, at least on paper, the requirements of the LRF are complied with. There is a huge number of cases of non-inclusion of retirees and pensioners in the personnel expenditure, discounting of credits without liquidity in the calculation of the net debt, among others distortions.

The Congress and the Executive (as well as their state and municipal counterparts) have also already found ways to dodge the determination that a new continuous expenditure (lasting more than two years) cannot be created without a clear indication of its funding source. The cases of impunity of public authorities that disrespect the LRF are increasingly common, but they do not suffer the penalties provided for, taking shielding behind their political influence and the sluggishness of justice. At every end of term of mayors and governors, cases of expenditures contracted without the corresponding cash availability emerge, with no consequences for the offenders.

Just as the LRF, the General Budget of the Union (OGU) has significant flaws both in its role of imposing strict budgetary restriction and in the rationalization of the expenditures. The National Congress, even though constitutionally forbidden to raise the estimate of revenues prepared by the Executive, habitually uses a distorted interpretation of the Constitution to increase the forecast of available resources. This results in increased expenditure to a level incompatible with fiscal balance. The Executive ends up restoring such balance by “contingencing” the expenditures. If, on the one hand, such mechanism prevents the worse evil of successive generation of deficits, on the other it paves the way for corruption and political bargaining in the decision regarding which expenditures will be made and introduces a bias contrary to public investment (easier to cut than-current expenses).

The proceduring of the OGU in the Congress also suffers distortions: the rules for proceduring of budget amendments leaves room for the scattering of the resources into small projects of a parochial and/or suspect interest (as in the case of the so-called mafias of the ambulances and medicines). Neither is there any cost evaluation that indicates that the amount provided for is appropriate for the intended goals of the projects and programs.

As for the Courts of Accounts (TC), it should be mentioned that these organizations are far from playing the important role of promoting quality and effectiveness of public spending. Historically, these entities have focused on verification of the *legality* of the public acts, rather than focusing on verification of the *quality* of the rendered service. Thus, activities such as checking balance sheets and certifying accounts are prioritised over on-the-ground audits of public programs, to verify any failures, wastes and need for course corrections.

Another cause of the inefficacy of the courts of accounts is their supposedly judicial organization, focused on imposing penalties on the managers who fail to comply with the rules. Given the constitutional right to appeal to the judiciary, a large number of managers “convicted” by the TC are later acquitted by the judiciary.

Their organization in the form of a board of justices or councillors, with high turnover in the command offices, prevents the TC from conducting medium-term projects for audit and control of public agencies. Furthermore, in the case of many state and municipal TC, agencies have been captured by bureaucratic and political interests, resulting in an abundance of privileges, high wages, excess staff, nepotism and co-opting of the board by the managers who should be inspected by the TC. Taking into account that the TC are among the main enforcers of the LRF, their inefficacy reinforces the phenomenon of loss of credibility of the LRF described above.

The electoral legislation can be an important ally in good public administration by removing from office individuals with a background of corruption and administrative improbity. The Constitution foresees the ineligibility of individuals involved in improbity and immorality in the past.²⁵ However, the regulation of this provision only prevents the candidacy of individuals convicted after appeal. Given the sluggishness of justice and the countless appeals that penal legislation makes available to the defendant, it is possible for a person widely known as corrupt to be re-elected for several years before final conviction.

Other factors contribute to turning Brazilian elections into a true “adverse selection mechanism”. A high-cost electoral system stimulates the politician in office to become corrupt in order to raise funds for re-election. The privileged forum for judgment of office holders and former office holders makes the judgment of the processes even slower, pushing them prescription. This also encourages individuals who become rich illegally to guarantee, by means of millionaire campaigns, an office that will keep them safe from common justice.

25. Federal Constitution, art. 14, paragraph 9.

7 CONCLUSIONS

This paper focused on the analysis of the institutional and political factors, as well as historical traits of the Brazilian society, such as high inequality, that resulted in low-efficiency of public spending. The roots of the problem reveal the great challenge of overcoming it. There is ample literature on the persistence of institutions along time, even though they are harmful to the whole population and their elimination could place the whole of society on a higher level of well being. It is equally complex to overcome the uncertainty of the agents on their post-reform situation²⁶ or to break majority coalitions formed by groups that prefer the status quo rather than partial reforms that might cause losses to them.²⁷

Thus, as important as studying what to do to make expenditure more efficient,²⁸ is to study how to implement the necessary reforms. It is in this direction that literature has moved, as shown in a recent summary by Zettelmeyer (2006).

26. Wei (1997).

27. Rajan and Zingales (2006).

28. A challenge that we seek to address in the book *Gasto público eficiente: 91 propostas para o desenvolvimento do Brasil*.