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Reformulation of income transfers in Brazil: simulations and challenges

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The debate around the reformulation of the Brazilian federal government's cash transfers precedes the COVID-19 pandemic, but it has grown significantly in the wake of the health crisis and the creation of the Emergency Grant (*Auxílio Emergencial*). This One Pager provides an overview of a paper by Paiva et al. (2021), which presents simulations for the future of non-contributory transfers in Brazil, discussing the dilemmas of various designs, and estimating costs and possible impacts on poverty and inequality.

The recent experience with the COVID-19 pandemic provides important lessons. The first concerns inequality. The pandemic tends to be worse in more unequal societies and, crucially, the economic fallout of the pandemic is likely to magnify pre-existing inequalities. The second is that the magnitude of the shock has put great pressure on social protection systems, especially in developing countries. The third lesson is that emergency cash transfers were a quick, effective response to the crisis in most countries.

Brazil has proven the viability of repurposing the apparatus of targeted cash transfers to ensure regular incomes to a large share of the population. Even during a critical situation such as the COVID-19 pandemic, the Emergency Grant was implemented in only a few weeks, largely thanks to the experience with *Bolsa Família* and the federal government's Single Registry for Social Programmes.

Although temporary, the Emergency Grant is a landmark for non-contributory social transfers in Brazil, having reached nearly 67 million beneficiaries across over 40 million households, comprising almost 130 million people. Over 60 per cent of the Brazilian population benefited from the scheme, either directly or indirectly. Further, it is remarkable not only for its coverage, but also for its benefit levels. The average Emergency Grant benefit was more than four times higher than the mean *Bolsa Família* benefit.

This is something entirely new in terms of non-contributory social protection for households with working-age members in Brazil, and demonstrates that, in adverse circumstances, extreme measures become a feasible option.

The Emergency Grant highlighted the importance of more generous non-contributory transfers, with broader coverage and budget guarantees. However, its main drawback is related to cost, which reached BRL45 billion per month. This is 1.3 times the entire annual budget reserved for *Bolsa Família*. Regardless of the effectiveness of the Grant in the short term in keeping millions of households from falling into poverty and the economy collapsing, the adoption of a permanent non-contributory model with such costs is not viable.

The challenge is designing a non-contributory social transfer model that has greater coverage, can ensure a minimum level of income that is higher than what is currently granted by *Bolsa Família* and protects the population that has no access to contributory benefits from negative shocks.

We simulated the distributive effects of three models of non-contributory transfers: a) targeted transfers, similar to the current *Bolsa Família* model, but with a per capita benefit and eligibility lines that are almost double the current values; b) universal transfers in the vein of a basic income; and c) hybrid transfers, combining a universal component for children with a targeted component.

Simulations were carried out for three budget scenarios: i) BRL 58 billion per year, which is fiscally neutral; ii) BRL 120 billion per year, which represent a halfway compromise between the extreme scenarios; and iii) BRL180 billion per year, which would bring the Brazilian expenditures with this type of programme closer to what is observed in OECD countries.

In all simulations, coverage would be significantly higher than what is currently observed. As expected, given a fixed budget, average benefits are highest in the targeted model and lowest in the universal model, while the hybrid model offers a middle road.

Results illustrate the trade-offs of a universal basic income. The targeted model and, to a lesser degree, the hybrid one, would entail reductions in poverty and inequality compared with the current *Bolsa Família* in all three budget scenarios, with increasing effects according to the availability of resources. However, the universal model would entail an increase in poverty in the most modest scenario and would only be more redistributive than the current *Bolsa Família* in the most expensive scenario.

Creating a new non-contributory income transfer programme that would significantly expand coverage imposes a myriad of operational challenges, such as the registration of new beneficiary households and updating information already recorded in the Single Registry. In addition, current payment methods could be supplemented with new digital strategies.

Financing difficulties are also worthy of note. Even the most modest scenario presents significant hurdles, which would be politically difficult to overcome. An alternative would be attaching the new social programme to the negotiation of the tax reform bill, currently under analysis in Congress. It already foresees an income transfer mechanism for the poorest people as compensation for the slow phasing out of current fiscal benefits. With some modifications, it could become one of the pillars for the reformulation of non-contributory transfers. Unfortunately, the current prospects for the approval of the tax reform are not good.

The transfer design, the level of benefits and coverage, the framing of operational issues and the conundrum of finding a robust financing solution during an adverse economic scenario are all issues that should be subjected to technical analysis. However, they will ultimately be answered in the political arena.

Reference:

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