World Bank: A Fair Adjustment
Efficiency and Equity of Public Spending in Brazil

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Course Content

1. The Two-Period Model
2. Production + Marginal Taxation
3. Uncertainty and Income Insurance
4. Overlapping Generations and Pension
5. Classical Monetary-Fiscal Interactions
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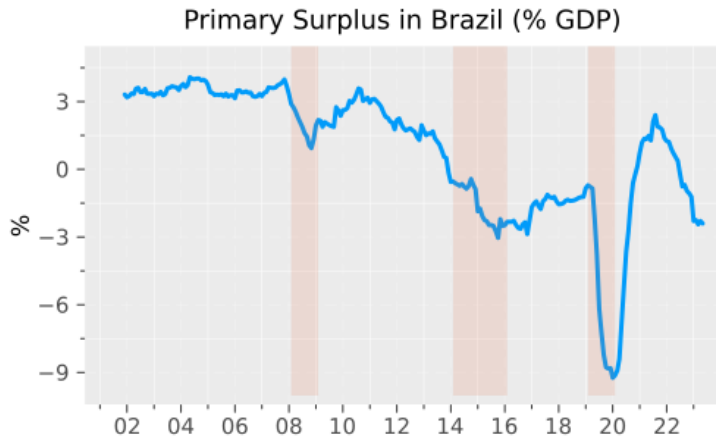7. Fiscal Multipliers
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The Report

The Report

- https://www.worldbank.org/en/country/brazil/publication/brazil-expenditure-review-report
- Published in November 2017 (but likely written in the previous months…)
- Context:
    - 2015/16 major recession
    - Deterioration of public finances
    - Polical turmoil
- Report focus: reforms and fiscal sustainability
- Our focus: quality of public spending/transfers

Surpluses in Brazil

Primary Surplus in Brazil (% GDP)

Policy List

Table 1: Summary of policy options and their impact on efficiency, equity, and potential fiscal savings [*)

Sector	Measures	Efficiency	Equity	Potential savings by 2026 (% of GDP)
Pensions	Reform of pension system (as negotiated in congress in May 2017)	+	+	1.8%
Wage bill of the Federal Government	Halve the wage premium of federal civil servants compared to private sector	+	+	0.9%
Public Procurement	Optimize procedures for selected goods and services	+	Neutral	Up to 0.2%
Social Assistance	New integrated social assistance program (merging BPC & rural pensions & *Salário Família,* into *Bolsa Familia*).	+	+	Up to 0.7%
Labor markets	Reform of *Abono Salarial* and *Salário Família*	+	Neutral	0.01%
	Reform to FGTS and *Seguro Desemprego*	+	+	0.6%
Health	Improve the efficiency of health care workers	+	Neutral	0.09%
	Expand primary healthcare coverage (from 65% to 100%)	+	+	0.03%
	Improve integration between basic and advanced healthcare	+	Neutral	0.12%
	Improve hospital efficiency	+	Neutral	0.05%
	Removing federal tax subsidies for private health insurance	+	+	0.33%

Policy List

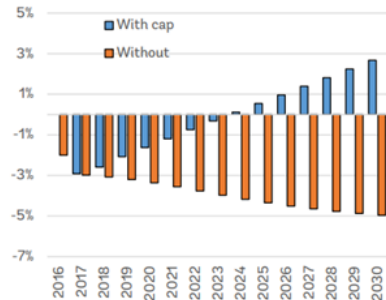|				
Education	Eliminate inefficiency in municipal primary education	+	Neutral	0.5%
	Eliminate inefficiency in state primary education	+	Neutral	0.3%
	Eliminate inefficiency in state secondary education	+	Neutral	0.2%
	Federal tertiary Education	+	+	0.5%
Programs for private sector development	Reforming SIMPLES (ideally as part of broader tax reform)	+	Unclear	Up to 1.2%
	Eliminating *Deshoneracao da Folha*	+	Unclear	0.4%
	Reforming *Inovar-Auto*	+	Unclear	0.03%
	Reform of Zona Franca of Manaus (to a less distortive and less costly alternative)	+	Unclear	Up to 0.4%
	Total savings from subnational expenditures			1.29%
	Total savings from federal tax expenditures			2.33%
	Total savings from federal expenditures			4.74%
Total				8.36%

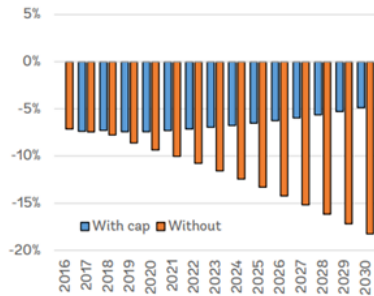Source: World Bank staff estimates.

Primary Balance

Without the spending cap the primary balance, overall balance and public debt would all be on an unsustainable path, eventually resulting in a macroeconomic crisis

Figure 1: Primary Balance Projection (with and without cap), 2016-2030

Figure 2: Overall Balance projection (with and without cap), 2016-2030

Source: Simulation using World Bank fiscal model

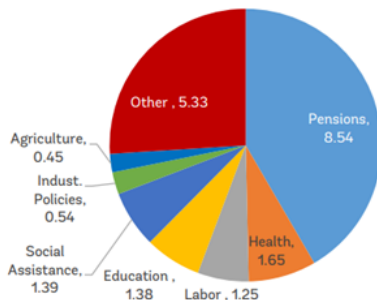Source: Simulation using World Bank fiscal model

Primary Balance

The needed adjustment cannot be accomplished without reducing the rigidity of expenditures, and necessarily needs to address the large spending on pensions

Figure 6: Rigid portion of total non-financial expenditures of central government

Country and year	Rigid Spending (as % of budget)
Argentina (2003)	85
Brazil (2017)	92
Bulgaria (2011)	80
Chile (2014)	65
Colombia (2000)	84
Ecuador (2003)	79
Mexico (2015)	82
Moldova (2011)	86
USA (1999)	80

Source: World Bank, various reports

Figure 7: Federal primary spending (including transfers), 2015 (in percent of GDP)

Other, 5.33
Pensions, 8.54
Agriculture, 0.45
Indust. Policies, 0.54
Social Assistance, 1.39
Education, 1.38
Labor, 1.25
Health, 1.65

Source: Brazil BOOST database Federal-level, based on data from SIOP (*Sistema Integrado de Planejamento e Orçamento*)
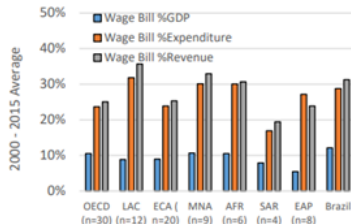
Wage Bill

Brazil spends a high share of GDP on the government wage bill; this is largely due to the high salaries in the federal government, as the total number of civil servants is not particularly large

Figure 10: Wage bill by income level (General government)

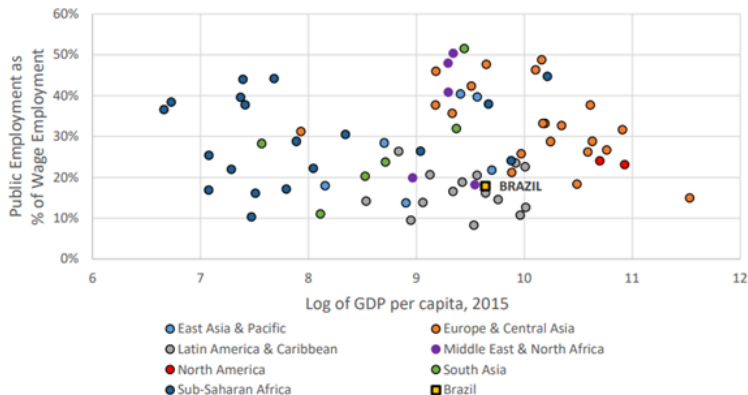Source: IMF's Government Finance Statistics (GFS) database

Figure 11: Wage bill by region (General government)

Source: IMF's Government Finance Statistics (GFS) database

Wage Bill

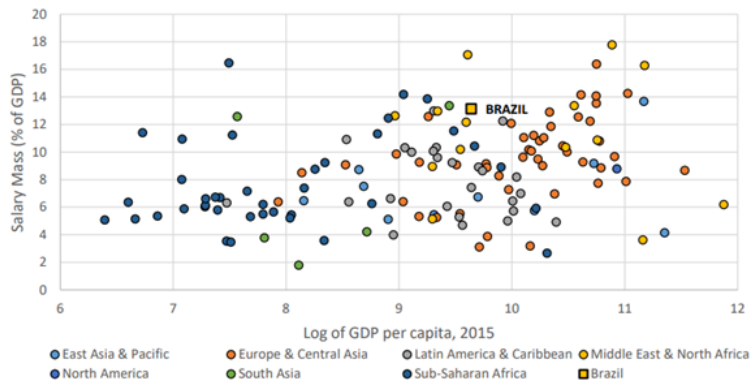**Figure 15: Public employment as share of formal wage employment by country**

Source: Worldwide Bureaucracy Indicators, World Bank Bureaucracy Lab
Note: Various years between 2009 to 2015, depending on the country. Data for Brazil refers to 2014.
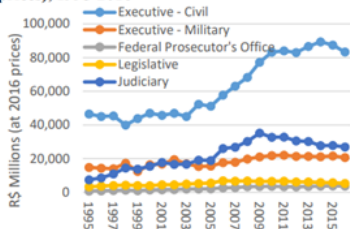
Wage Bill

Figure 12: Salary mass as a percentage of GDP per country

Source: Worldwide Bureaucracy Indicators, World Bank Bureaucracy Lab

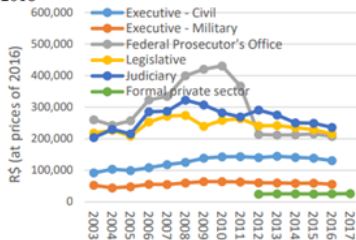# Wage Bill

Figure 20: Expenditure on personnel by branch of the federal government (R$ millions at 2016 prices), 1995-2016

Source: Boletim Estatístico de Pessoal e Informações Organizacionais, MPOG

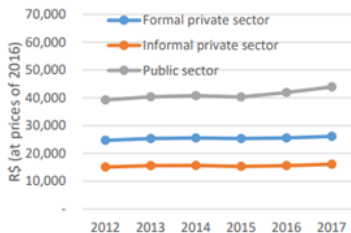Figure 21: Annual expenditure per civil servant in the federal government (R$ at 2016 prices), 2003-2016

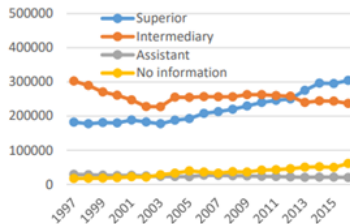Source: Boletim Estatístico de Pessoal e Informações Organizacionais, MPOG

Wage Bill

High salaries in the public sector reflect, in part, an increasing level of education among federal civil servants.

Figure 24: Average annual remuneration in public sector (PNADc)

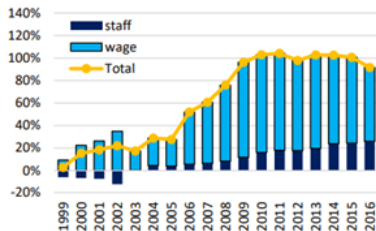

Source: PNAD continua

Figure 25: Educational level of federal civil servants in the executive branch

Source: Boletim Estatístico de Pessoal e Informações Organizacionais, MPOG
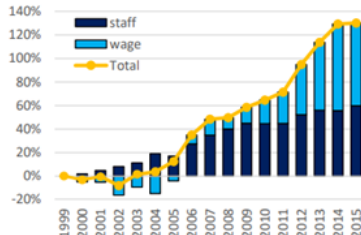
Wage Bill

Figure 22: Decomposition of wage bill between number of civil servants and remuneration per servant in the federal executive branch

Source: *Boletim Estatístico de Pessoal e Informações Organizacionais*, MPOG
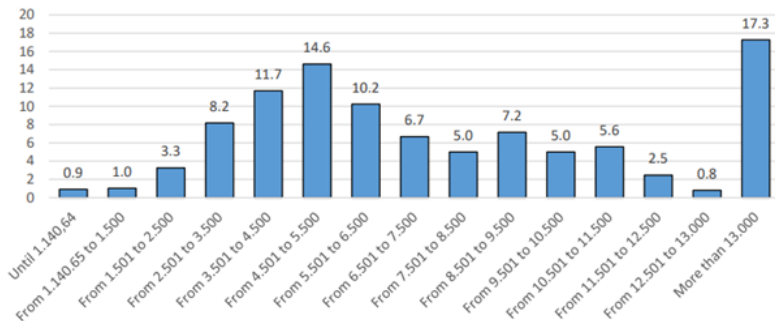

Figure 23: Decomposition of wage bill between number of civil servants and remuneration per servant in the subnational governments

Source: *Boletim Estatístico de Pessoal e Informações Organizacionais*, MPOG and PNAD

Wage Bill

Figure 26: Distribution by salaries bands - federal public servant (executive only, percent of total)

Source: Boletim Estatístico de Pessoal e Informações Organizacionais

Wage Bill

Table 2: Summary of regression results on wage premium for civil servants

	Coefficient	Robust Std. Error
Dependent Variable:	log of wage	
All public sector	0.176***	(0.007)
Federal	0.674***	(0.020)
State	0.308***	(0.012)
Municipal	-0.0148**	(0.008)

*** p<0.01, ** p<0.05, * p<0.1

Source: Authors' estimation using PNAD 2015.
Note: Full regression results are presented in Volume II of this report.

Wage Bill

The salary premium of federal servants in Brazil is the highest when compared to most countries.

Figure 27: Brazil's wage premium between public and private sector (controlling for education level, professional experience, gender, location, etc.), compared internationally

References I