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# Well-being and Social Policy

Estelle James  
Alejandra Cox-Edwards  
Rebeca Wong

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John Scott

Guilherme C. Delgado  
Ana Carolina Querino

Eduardo Rodríguez-Oreggia

Ernesto Sepúlveda Villareal

THE GENDER IMPACT OF SOCIAL SECURITY  
REFORM IN LATIN AMERICA

RESTRICTIONS, PROBLEMS AND DILEMMAS OF  
SOCIAL PROTECTION IN LATIN AMERICA: FACING  
CHALLENGES FROM AGING AND INCOME SECURITY

SOCIAL SECURITY AND INEQUALITY IN MEXICO:  
FROM POLARIZATION TO UNIVERSALITY

PROVISIONAL AND WELFARE INCLUSION IN  
BRAZIL (1988-2005): SCOPE AND LIMITS

THE POLITICAL ECONOMY OF SOCIAL SECURITY  
REFORMS IN THE AMERICAS

THE AMERICAS SOCIAL SECURITY REPORT 2005:  
LABOR MARKETS AND THE FRAGMENTATION OF  
SOCIAL INSURANCE, FINANCING FOR HIV-AIDS BY  
SOCIAL SECURITY (*Book Review*)



# PROVISIONAL AND WELFARE INCLUSION IN BRAZIL (1988-2005): SCOPE AND LIMITS

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## Abstract

**T**his paper analyses the influence of new rights derived from the Social Security System in Brazil after the Federal Constitution (1988). At least, three different and independent forces determinate the arrangements in social security policies: 1) the new social rights created by constitutional rules in response to social pressure; 2) the decrease of employment and wages in salaried jobs imposed by business cycle; 3) the trend on demographic transition and its direct, but modest influence in the system. In spite of ideological differences, there is a consensus that social security financing depends on an increase of at least 4% per year in GDP.

— Key words: social security, labor market, demographic trend.  
Classification JEL: H55, J21, J11.

## Introduction

**T**his article analyzes a period comprising more than a decade after the promulgation of the 1988-Constitution, in which opposite trends influenced social security policy in Brazil. On the one hand there was a tendency in favor of the recognition and extension of social security rights—expressed in the new Federal Constitution Laws; on the other, there was a continued reduction in economic growth which led to financing problems in the provision of social insurance.

In this context of opposite trends, in each section of this article we refer to the advances and limitations in the insurance and welfare inclusion, during the last two decades.

In Section 1 we try to put into perspective the social insurance system and its links to social security—indicating its large expansion in terms of providing protection to the inactive population. It also reviews the contractions in the number of salaried workers in the labor market, which gave origin to a marked reduction in the number of insured workers by the *Previdência Social* (Social Insurance).

In Section 2 the analysis concentrates in the current and prospective demographic aspects that determine, to some extent, the situation of the social insurance systems in the long-term. In this respect, the situation in Brazil is positive in the sense that a favorable relation of dependence

(inactive population/active population) is observed. By comparing the demographic situation in 2005 and 2050 in nine large countries (in terms of population, size of the territory and GDP) an intergenerational equilibrium is observed.

In Section 3 we summarize the most important legislations during the period. These have promoted the extension of the risks covered in social insurance and welfare programs and, at the same time, have permitted an increase in the coverage of mainly rural population—apart from salaried workers. There was a simultaneous increase in the insured rural population—by legislation—and a reduction in the number of urban workers covered—because of economic reasons.

In Section 4 we discuss the current limits to fiscal policy and the long-term perspectives of the Budget of Social Security, which has been affected by the opposite trends of the restrictive economic “adjustments” vis-à-vis the expansion of social security.

In the last section we present the conclusions in relation to the inclusion of the social insurance system. It also discusses its prospects for long-term sustainability. The authors recognize that there may be future changes in the social security system. The current debate regarding the new social insurance reform (*Reforma da Previdência*) reflects these concerns.

The economic environment and the route towards development are the crucial factors in this and other related social fields. In pure terms of insurance, the solution to the crisis in the labor market—the reintegration of the informal workers to the formal economy and to the social insurance—is the key issue. However, there is another social insurance reform (*Reforma da Previdência*) which restricts to the basic social rights. It considers several aspects of the Brazilian rights that have been identified as some of the causes for financial/intergenerational disequilibria, such as the minimum benefits fixed in relation to minimum wages and the differences in age—rural and urban and of men and women. The discussion on the *Reforma da Previdência* is not exempted from preferences and interests. Nevertheless without clarifying the complex political, demographic, financial, and ethic-normative processes, conservative reforms will reflect an incomplete effort.

## 1. Social Insurance and the Design of the Labor World in Brazil

### 1.1 Social provision: regulatory changes and performance

More than 80 years after the establishment of the *Regime Geral de Previdência Social (RGPS)* in Brazil (*Ley Eloi Chaves -1923*)<sup>1</sup> we observe that in the last two decades of the century there have been significant changes in both the labor market and in social insurance. The first type of transformation—in social insurance—is originated by the constitutional changes of 1988 that broadened the concept of social insurance (*Previdência Social*), going further than the Bismarckian concept of social security linked to the job contract. The second category of transformation—in the labor market—takes place due to economic and labor market changes (1982-2004), that hampered the processes of growth in employment and salaried-jobs observed in the industrialization period 1930-1980).

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<sup>1</sup> The current social insurance regime (RGPS) has its origin in the Caixas de Aposentadorias e Pensão for salaried workers, which was institutionalized with the Eloi Chaves Law (1923). However, many years before this Law was enacted (from the Colonial/Imperial era) some protection subsystems had been implemented for a number of civil servants, especially the military forces. For a retrospective historic study see MPAS ( 2002).

Recently (1988-2004), social insurance has increased considerably—with respect to either the rural economically active population or the inactive population receiving benefits—during a period of stagnated economic growth (decade of the nineties and beginning of the new century). This is presented below (See Tables 1 and 2). The apparent paradox might be explained by the measures adopted by the *Previdência Social* after 1988. The principle of universal-access that was extended to the rural workers by linking it to the regime of family-economy extends social insurance for “special insured persons”. It should be noticed that this relates to the maturation of the insurance rights included in the job-contracts in the 60s and 70s.

In Table 1 it may be possible to analyze the normative effects derived from the evolution of the labor market by constructing the stages of the “social insurance benefits” that have been provided by the National Institute of Social Security (INSS) during the last 25 years.

The social insurance periods -1980-91 and 1991-2004- are different because the second period does not include the social insurance innovations in the Constitution of 1998, that were applied since 1992.

**Table 1**  
**Cumulative Benefits in the INPS-INSS System, 1980-2004**  
(annual average growth rates for different benefits and periods)

Periods	1. Benefit per time of service	2. Old-age benefits	3. Death pension	4. Disability benefit	5. All benefits
1980-1991	6.6	4.9	6.6	4.4	4.5
1991-2004	7.1	6.7	3.5	1.6	4.8
1991-1999	10.2	8.6	3.7	0.9	5.1
1999-2004	2.2	3.7	3.0	2.7	4.2

Source: Anuário Estatístico da Previdência Social (Statistical Yearbook of the Social Insurance), various years.

The last two lines in the Table 1 represent the period following the Constitution. This period is separated in an expansive phase of social insurance and welfare rights (1991-1999); and in a restrictive phase (1999-2000)—initiated by the *Reforma da Previdência* during the government of Fernando Enrique Cardoso (E. C. n° 20 of December, 1998).

In the first period (1980-91), social insurance follows the path marked by the labor rights contained in the Consolidation of Labor Laws (1943). The stock of benefits increased in 4.5% per year, while the “benefits per time of service” (6.6% per year) and death pensions (6.69% per year) had the highest growth.

In the first period all the permanent benefits in the Table 1 (time of services, old-age, disability and death pensions) are—directly or indirectly—associated to demographic risks or events in the eighties, related to a population covered by social insurance in the fifties and sixties. The final average rate (4.5% per year) possibly reflects the acceleration of the formal social insurance in the fifties and sixties, when the formal labor market expanded in annual rates superior to 4%. In consequence, in this period the *Previdência Social* increased due to the previous growth of formal employment and the social insurance of active workers in the fifties and sixties.

On the other hand, the expansion of the stock of benefits in the second period (1991-2004) is more complex, since it reflects the growing process of the labor market—in the seventies—and

the expansive rules of social insurance and welfare coverage in the nineties (after the Constitution). The average growth rate of the stock of benefits accelerates (4.8% per year) mostly in the previous phase to the *Reforma da Previdência* (1991-99) when it reaches 5.1%.

The second period presents two different phases—from 1991 to 1999 and from 1999 to 2004. In the first phase there is a pronounced acceleration in benefits per time of service and old-age—growth of 10.2% and 8.3% respectively. In the second sub-period, with the Social Insurance Law<sup>2</sup> already in use, the growth rate of the stock of benefits per time of contributions falls to 2.2% and old-age pensions to 4.1%. Obviously, the drop in benefits per time of service/contribution only observed a marked slowdown from 1999, after the rapid increase observed before the enactment of the Constitutional Amendment 20, of December, 1998. In turn, old-age benefits also decreased their rhythm of growth, probably due to the weakening in time of the impact of the high accumulation occurred during the period 1993-1995 (*Previdência Rural*). The total stock of benefits shows an average growth of 4.2% in the last lustrum, higher than their historic pattern. This result is partially due to the demographic changes and to the Social Insurance Law.

This article does not contain a more detailed analysis of demographic and normative impacts of each benefit during this time, since it is not the main objective of study.

The statistical information analyzed shows the conclusion that there is a stabilization in the growth level of the total stock of social insurance benefits, in 4 to 4.5% per year, which probably reflects the historic pattern of the last 25 years. The increase in the average life expectancy of the elderly will have an impact in the long term over the stock of benefits, but it will be smooth because the demographic trend in the long run is not abrupt (see analysis in Section 3). The future projections should consider the features that determine the stock benefits. However, past trends can be used to approximate future trends.

## 1.2 Recent evolution of the labor market

The labor market analysis in which we are interested has social security as a reference. That said, the formality and informality of labor relations considered have as a distinctive factor the fact that those relations can or cannot be linked to social security.

The evolution of the labor market in the last 25 years shows, with great adhesion, the movement of the economic cycles in the long run: a) the large cycle of industrialization-urbanization—1930 to 1980; b) the cycle of economic semi-stagnation—1982-2004—in which we still are.

From the point of view of formal salaried relations, the expansionary economic cycle conducted to a remarkable increase of the working population, ensured by the *Previdência Social*. Industrial Censuses of 1950, 1960, 1970, and 1980 show the growth of formal salaried jobs, with a growth on industrial employment in the period 1950-1970 at an average annual rate of 4.3%, which accelerates during the seventies (growth of 8.4% between 1970-1974 and of 2.9% between 1970-1980, (Delgado, 1985). The GDP grew over 5% on average during this large cycle).

The labor market situation, in terms of “formalization” and “informalization”, at the end of the large industrialization cycle, is the following, according to the Table 2.

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<sup>2</sup> The *Lei do Fator Previdenciário*, enacted in November, 1999, has the target of delaying pensions per time of service/contribution, by imposing monetary reductions to those that retire “early”.

**Table 2**  
**Comparison between Formal and Informal Sectors in the 1980 and 2000 Censuses**  
(percentage)

	1980	1991	2000
<b>Formal Sector (contributors to Previdência Social)</b>	55.6	53.5	41.8
1. Employed contributors to <i>Previdência Social</i>	43.8	42.1	30.9
2. Independent contributors to <i>Previdência Social</i>	6.6	6.0	4.3
3. Public sector contributors	3.4	2.9	4.8
Subtotal (1+2+3)	53.8	51.0	40.0
4. Employers that contribute to <i>Previdência Social</i>	1.8	2.5	1.8
Total Contributors (1+2+3+4)	55.6	53.5	41.8
5. Special Potential insured <sup>1/</sup>	-	-	-9.3
Total Insured	55.6	53.5	51.1
<b>Informal Sector (non-contributors to Previdência Social)</b>	43.4	48.0	55.7
a) Independent without contribution to <i>Previdência Social</i> <sup>1/</sup>	16.9	18.4	15.6
b) Non-remunerated (support for production)	4.6	3.3	3.4
c) Production for self-consumption	-	-	2.6
d) Involuntary unemployed	2.1	5.4	15.3
e) Salaried employees without contributions	19.8	20.9	18.8
<b>Total of Non-Contributors</b>	43.4	47.0	55.7

Note: 1/ In the category of “special potential contributor” the following were included: the rural self employed; the non earner in help of rural household, and the worker for self-consumption, defined as occupied in the week the census was performed.

Source: Demographic Census of Brazil (workers) 1980, 1991 and 2000.

The “potential insured” category includes the “independent workers” of rural sector; the “non-remunerated, support for members of the rural household” and the “workers in the production for self-consumption”, that were occupied in the reference week of the Demographic Census.

The formal sector, measured by the proportion of the occupied workers in all work relationships that contribute to social insurance, decreases from 55.6% to 41.8% of the Economically Active Population (EAP), in about 14%. This trend is the opposite of the one observed in the last five decades, when the Social Insurance and the formal salaried grew considerably.

On the other hand, it is important to note that workers insured by social insurance decreased less proportionally, given the new component that appears in the last year presented (2000), the “special rural insured”—almost corresponding to 10% of the total EAP—that is entitled to the basic provident rights included in the familiar economy scheme. This scheme does not require individual mandatory contributions; it only requires contributions from those agricultural workers with tradable goods in excess that are subject to tax.<sup>3</sup> This provident sub-system is financed with resources from the Budget of Social Security.

The level and composition in the informal sector (non-contributors to social insurance) change significantly during this period, as well as in the formal sector. An increase in unemployment in the urban sector and in self-consumption activities in the rural sector is observed. This last group is reached by social insurance only through the new familiar economy scheme. In case of

<sup>3</sup> For an analysis of the financing in the *Previdência Rural* see Delgado and Castro (2003).

crisis, this scheme guarantees protection against poverty and indigence, fact that is accepted by consensus when the *Previdência Rural* of Brazil is evaluated<sup>4</sup>.

Finally, according to the data and analysis of this section, it is possible to formulate some provisional conclusions, relevant to this article: 1) there is a great reduction in the number of workers that contribute to social security because of the decrease of salaried employment in the economy; 2) the total number of insured persons in the *Regime Geral* and in the Public Servant Scheme (*Regimes de Servidores Públicos*) has remained relatively stable (it actually drops from 55.6% to 51.1% of the EAP); 3) a simultaneous expansion of provident and welfare benefits from social insurance (see Table 1) occurs due to demographic features, addressed in the previous subsection, combined with the new social entitlements introduced with the Constitution of 1988 and analyzed in more detail in Section 3.

The situation in the labor market (the decrease of salaried work with the simultaneous growth of informal relations), necessarily affects the fiscal balance of social security. On the other hand, the fiscal balance of social security cannot be solved without economic growth or an increase of provident relations from current informal workers—issue that is studied more deeply in Section 4.

## 2. Demographic Profile: Positive and Restrictive Aspects

In Brazil, as well as to a large extent in other countries of the world, we are crossing, at different rates, by marked processes of demographic transition. The main evidence of this transition is the transformation of the age structure, characterized by the aging of the Brazilian population. This demographic transition, in the events that occurred in the last two decades of the XX century, can be considered as a change of third category, and has direct implications for the social provision. The other transformations were mentioned in the previous section: the alterations in the provisional system and the structure of the labor market.

It is possible to identify three phases in population history since the second half of the XIX century. The first phase runs from 1870 to 1930. It is characterized by an important population increase, generated by the migratory wave. The second initiated around 1940 and it lasted until 1970. In this period also it is possible to identify a high population growth, explained by the fall in the rate of mortality between years 1950 and 1960, with a rate of population annual growth of 29%. The third phase initiated in 1980 and last until the present days. In this period the fall in the fertility rates—initiated since the sixties—and in the rates of mortality was also accentuated.

These facts have significantly altered the distribution of the ages of the population and have generated concerns in the people in charge of social policies about their consequences in health terms, education and, mainly, social provision. In the first demographic stage, the rate of fertility was 5.5 children by woman. At the moment, this same rate is 2.3 children. Also, with the advances in medicine, the rates of infant mortality—who directly affect the life expectancy at birth—and among the elderly—are falling. With this, the base of the pyramid, formed by individuals that have between 0 and 15 years, is diminishing. Consequently, the intermediary groups of age and the older population are increasing proportionally. Thus, in 1960, according to data from IPEA (2005b), 43% of the Brazilian population had between 0 and 15 years; and the 5.3% had more

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<sup>4</sup> For an exhaustive evaluation of Brazilian *Previdência Rural*, see Delgado and Cardoso (2000) .



**Table 3**  
**Age Structure and Dependency Rates, 2005 and 2050**  
(ratio)

Countries	2005				2050			
	Dependency rate <sup>1</sup>	Active age 15-59 years	0-14 years	60+	Dependency rate <sup>1</sup>	Active age 15-59 years	0-14 years	60+
Argentina	0.676	59.6	26.4	13.9	0.742	57.4	17.8	24.8
Brazil	0.579	63.3	27.9	8.8	0.745	57.3	17.7	25.0
Canada	0.550	64.5	17.6	17.9	0.906	52.4	15.7	31.8
China	0.477	67.7	21.4	10.9	0.876	53.3	15.7	31.0
France	0.647	60.7	18.2	21.1	0.949	51.2	15.7	33.0
Germany	0.650	60.6	14.3	25.1	0.996	50.1	14.9	35.0
India	0.666	60.0	32.1	7.9	0.639	61.0	18.3	20.7
Japan	0.675	59.7	14.0	26.3	1.227	44.9	13.4	41.7
United States	0.600	62.5	20.8	16.7	0.776	56.3	17.3	26.4

*Note:* 1/The dependency rate is calculated as the ratio of inactive population (from 0-14 years and 60 and over) to the population in active age (15 to 59 years).

*Source:* United Nations Population Division (2002).

than 60. At the moment, 28% is in the first group and 8.8% is in the second. Data of the United Nations Population Division shows that in 1950 the proportion of children in Brazil was 38%, whereas the one of the elderly was 6%; in 2000 that proportion changed to 33 and 8% respectively. In international comparative terms—present and future—the Brazilian demographic situation is favorable (see Table 3), as it is deduced from the next comparisons.

The list of nine countries, based on the size of the population and the world-wide territory or the Gross Domestic Product, shows evidence on the demographic position of Brazil in terms of the dependency ratio: inactive population / population in active age. Its situation is very favorable (3<sup>rd</sup> better position in 2005 and 3<sup>rd</sup> position also in 2050) and particularly excels its present situation—of the nine countries, it obtains the 2<sup>nd</sup> lower proportion (8.8%) of the elderly in the population, compared with the double in the United States and almost the triple in both European countries, France and Germany. These data and their projection to year 2050 suggest the different nature of our provisional demographic problem, situation that often escapes to the uninformed observer.

Projected to the next future (2050), the age distribution still is favorable to us in provisional terms (see data on Table 3). The reduction of the rate of fertility and infant mortality is a recent phenomenon. Thus, the base of the population pyramid registered a decrease and, consequently, an increase in the amount of individuals in active age was registered. As the Brazilian social insurance system is pay as you go, in which the pensions are paid with the contributions of the active workers, the increase of the Population in Active Age is, in isolated terms, very positive. An increase in the amount of potential contributors to the system exists. Nevertheless, other conditioners are present, related to the labor market and the economic cycle that cancels the beneficial aspect of the demographic transition.

In the previous section, an analysis of the recent evolution of the labor market and its implications for social insurance was made. The analysis showed that, with the economic cycle of semi-stagnation that characterized the last twenty-five years, the number of formal jobs diminished. Also, while there is an increase in the amount of people in the working age group, a reduction in the number of contributors to the provision systems is registered. That fact represents a problem in the present and also creates a greater one in the future. In the present, it affects negatively the base of collection of the *Previdência Social*, reducing the relation between the active contributors and the inactive beneficiaries. This situation creates a new problem for the future, the people who are in the informal labor market at the moment do not belong the group of insured population in the *Previdência Social*. This means that those people do not get the rights to receive any type of benefits in case of being in risky situations, or are not entitled to temporary benefits, in the old age or in the disability. In this last case, it considerably increases the probability that they become poor or indigent, without provisional protection.

Another important aspect to be taken in consideration in demographic terms is the increase in life expectancy. For sixty years, the Brazilians lived on average fifty years. At the moment, the life expectancy is around sixty seven, and it is expected to increase over time. As a consequence of this change in the demographic profile, which results in that individuals receive benefits during more time, make the people in charge of the provisional policy to be concerned. There are some who promote radical reforms aimed at eliminating a series of rights, using long series of demographic projections to justify their arguments. This group also based their conclusions on the structure of the European age structure, where the amount of elderly already surpasses the number of children: near 20% of elderly and 17% of children, with data of the United Nations Population Division (2002) (see Table 3). Nevertheless, this proposal of radical reform is not legitimized because the demographic changes are not steep, but gradual. In Brazil it will take several decades to have a situation equivalent to the demographic situation of Europe. The present distribution of Brazilian population age is not comparable even to the situation in the fifties of the more developed countries. It is observed in addition, that our relation of dependency (active population / inactive population) is the better 3<sup>rd</sup> in 2005 for the series of nine countries (see Table 3), position that will remain in 2050.

The demographic argument, on the other hand, requires to be taken in consideration for the analysis of certain types of benefits that today are unsustainable in our demographic reality. As example we can mention the Retirements per Time of Services that were transformed into Retirements per Time of Contributions with the *Reforma da Previdência* made in 1998. In that occasion, it was tried to establish a minimum retirement age to be entitled to benefits, but the proposal was not approved. A mechanism to calculate the pensions was created that had as main objective to delay the moment of the retirement, the *Fator Previdenciario* (Provisional Factor). It is a multiplier that weighs the value of the benefit in inverse reason to the remaining life expectancy of the insured. The Factor was efficient to delay the claim of that type of retirement, although in the present form it is not the best instrument that can be used due to a series of reasons that will not be discussed in this article.

The increase of the life expectancy, caused by the improvement in the quality of life of the individuals has other consequences, like prolonging the capability to work. Some years ago a person of certain age had an ability to work very restricted, but that reality is changing. It is common to find people with more than sixty years that are still in the labor market. According to

the Demographic Census of the 2000, 17% of the elderly were working. Of them, near 8% were already retired and they returned to the labor market in order to complement its rent (Camerano *et al.*, 2004). This fact, on the one hand, contributes to the adjustment of the minimum ages of retirement to the demographic reality, because the provisional risk related to old age has to do with the nonexistence of capability to work. On the other hand, the restrictive structure of our labor, main cause of our provisional crisis, does not contribute to the longer permanence of the elderly in the labor market.

### 3. Main Normative Changes in the Scope of the Inclusion: Reach and Limits

In this section we will do a brief presentation of the main normative transformations that provide an increase of the prevision and welfare protection in the period covered by this article. These transformations were possible by the conceptual changes that began with the Constitution of 1988. The decade of the 80s was characterized by a tendency that defended the unification of health, attendance, and social prevision systems. This tendency was present and set during the elaboration of the Brazilian Constitution, and that culminated with the creation of the constitutional concept and the Budget of Social Security. The Social Security is governed by the principle of universal access to benefits, so that it is guaranteed greater equality and justice between individuals. These principles and the new models of welfare prevision and health that reflect them were regulated and put in practice in the first years of the nineties. Then, we will analyze in this section the alterations in the social prevision and the social attendance, represented by the *Previdência Rural* and the creation of the Continuous Benefit (*Benefício de Prestação Continuada*), trying to indicate its reaches and limits.

#### 3.1 *Previdência rural*

The embryo of the *Previdência Rural* was established in the beginning of the decade of the 70, during the military government. At that moment, the Welfare Fund of the Rural Worker (*Fundo de Assistência ao Trabalhador Rural: FUNRURAL*) represented an advance in terms of social protection, since the Brazilian prevision had been designed so that it only took care of the segments of the urban population with taxpaying capacity. The rural subsystem, created in this occasion, already presented universal outlines and was already non-contributory; nevertheless, it was not able to eliminate of the system the regressive, segregate and corporative characteristics. The granted benefits corresponded to the average minimum wage and only the head of the household had the right to receive it.

The Constitution of 1988 and laws 8,212 and 8,213 that in 1991 regulated the constitutional principles altered significantly that subsystem. The main changes were done regarding the access conditions, the value of the benefit and the creation of new sources of financing. The *Previdência Rural* began to offer the following benefits: retirement by old-age, disability, aid by disease, aid by maternity, aid by retirement and death pension. The subsystem was integrated to the INSS and their benefits were tied to the minimum wage: the new prevision floor established by the Constitution. In addition to those transformations, other very important ones were done in the criteria of eligibility. In the rural subsystem, retirement by age is granted with five years less than the urban one: at 60 years for men, and 55 for women. This differentiation at the time was justified by the differentials in life expectancies of the respective populations and also by the fact that the type of work made

in rural areas is more exhausting than in urban ones. Other important changes were made in the eligibility conditions to grant benefits: women, in the new situation, do not need to be heads of household to have the right to the benefit, as was required in the old FUNRURAL. These two changes are between the main causes of the quantitative expansion of the *Previdência Rural*.

As we previously stated, the *Previdência Rural* does not demand financial contributions from the insured, provided that there is no tradable surplus. This characterizes it as a type of provident-security, cradled in the Beveridgean principles. In agreement with these principles, it must have a non-contributory component in the social insurance system that grants minimum benefits, without demanding a financial contribution. In the Brazilian case, the rural insured only need to verify their time of activity in the scheme of familiar economy. Nevertheless, these are not sufficient to finance the payment of the benefits. The complementation comes from the contributions of the urban system and other social contributions from the Budget of Social Security.

In protection terms, this scheme of provident contributions is of fundamental importance, being determinant to guarantee the high level of coverage in the assistance of prevision and welfare risks that now characterizes Brazil. In rural milieus, a very small proportion of workers has taxpaying capacity; the great majority works within the scheme of familiar economy and constitutes the target population of the *Previdência Rural*.

Because of all these characteristics, the *Previdência Rural* had a strong impact in terms of provident inclusion throughout the 90s, mainly in the period that goes from 1993 to 1995, when great leaps in terms of quantitative increase beyond the vegetative growth of the stock of benefits no longer take place. In Section 1 of this article, where the dimension of the Brazilian social insurance system and its evolution throughout 25 years were determined, it was shown that in the period that goes from 1991 to 1999, the stock of Retirements by old age, for example, grew at a rate of 8.3%. From 1999 to 2004, this rate fell to 4.1%. It is considered that the set of benefits paid in rural milieus, between 1992 and 1994, period in which the inclusive effects of this new model of social insurance were observed more clearly, it increased to 2.4 million benefits: in 1992, 4.11 million were paid, and in 1994, that number reached 6.48 million. In August of 2005, the rural customer beneficiary in the INSS already added 7.3 million beneficiaries.

There is an agreement formed regarding the positive points of this scheme of provident inclusion. The granting of the benefits of the *Previdência Rural* contributes to the improvement of the quality of life of individuals, by the reduction of poverty, regional redistribution of rent, and development of familiar agriculture. It also produces changes in the social rolls within the family, among other effects widely discussed in studies of evaluation of this prevision subsystem.

At the moment, the new regulation of the *Previdência Rural* to improve the adopted model is in debate. A project in proceeding in the Commission of Social Security of the Camera of the Deputies exists, and looks for a consensus between the Executive authority and diverse segments of the Social Movement. The goals to be improved are: the establishment of criteria to define the scheme of familiar economy and the special insured; the centralization of work for the access to social insurance and the associated provident contribution to the excess; and inscription, registry and documentation of the special insured. It is important to stand out that the consensus around these points preserved all the original principles of social security of this prevision subsystem.

### 3.2 The new model of social welfare: the creation of the *Benefício de Prestação Continuada* (Continuous benefit)

The rights and the public obligations established by the Constitution with the objective to guarantee a minimum level of protection to the individual in vulnerability situations also anticipated the reformulation of the Brazilian model of Social Welfare, which until then was characterized by exclusion and customer relations. In 1993, the Statutory Law of Social Welfare (*Ley Orgánica de la Asistencia Social: LOAS*) was approved, and with it a new welfare model in Brazil was implemented. Between the new features of this model it is its inspiration in a set of social rights, with the recognition of the importance and the application of the principles of universal access, participation in the management of public policies, diversity of the financing bases and non-diminution of the value of the benefits. That is to say, the same principles exist in the *Previdência Rural*.

At the moment, the Social Welfare is constituted by diverse programs. The main ones are: Family Fund (*Sacola Família*), Program of Eradication of the Infantile Work, Continuous Benefit, among others. In this section, we will approach only the *Benefício de Prestação Continuada* (Continuous Benefit) - BPC- which is the result of the reconstruction of the system of welfare pensions. The BPC is the greater innovation of the LOAS and is the welfare benefit responsible for the boarded process of inclusion in this article.

Until 1995, the pension granted in the scope of the Social Welfare was the Lifetime Monthly Rent (*Renda Mensal Vitalícia: RMV*). The RMV, as well as the *Previdência Rural*, was created in the decade of the 70 during the military government. The target population of this benefit was the older adult aged 70 and over, as well as the disabled who proved their lack of means for their sustenance. The RMV is a relatively excluding benefit, since one of the conditions of eligibility is that the candidates had made at least 12 contributions to social insurance. Thus, only the people who at some moment of their lives had worked in the formal labor market, had access to the benefit. Nevertheless, the most fragile social groups are precisely the informal workers and the domestic workers. And the RMV did not include the individuals with congenital deficiencies. Another factor that limits the level of protection of the RMV was the value of the benefit: half of the minimum wage.

Since January 1996, the BPC began to be granted, replacing the RMV. Initially, the BPC was addressed to older adults aged 70 and over, and to the disabled, including those with congenital deficiency. Unlike the RMV, in the BPC minimum contributions to the social insurance are not demanded. Individuals, besides belonging to some of the aforementioned groups, are only expected to reside in a household with a rent per capita inferior to a quarter of the minimum wage, where no member receives other pensions from social insurance or unemployment benefits. Another important difference: the value of the benefit was increased from half to a complete minimum wage. This increase in the value of the pension, the new definition of disability, the fact of not requiring previous contributions to social insurance, and the reduction of the minimum age to be eligible for the benefit, are the main factors responsible for the increase in the protection level, determined by the extension of coverage and the value of the benefit.

The BPC is the welfare program that grows the most. The BPC for people carrying deficiency (BPC-PPD) registered the greater increase. The most remarkable leap in the amount of granted benefits happened when the eligibility criteria were changed. The floor occurred between 1996

**Table 4**  
**Number of Welfare Benefits Granted, from 1995 to 2004**  
 (numbers in thousands as of december of 2004)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Welfare benefits</b>	1,218	1,489	1,707	1,827	1,937	2,042	2,105	2,253	2,330	2,629
Welfare pensions (BPC)	-	346	646	848	1,033	1,210	1,339	1,561	1,701	2,061
Disabled	-	304	557	641	720	81	870	976	1,036	1,128
Old-age	-	42	89	207	312	403	469	585	665	933
Lifetime Monthly Rent (RMV)	1,203	1,127	1,043	959	886	813	747	674	611	551
Rmv Disability	701	667	626	585	548	510	476	437	403	370
Rmv Old-age	502	459	42	374	338	303	272	237	208	181

Source: Statistical Yearbook of the Social Insurance (*Anuário Estatístico da Previdência Social*), some years and Statistical Journal of the Social Insurance (*Boletim Estatístico da Previdência Social*), 2004.

and 1997, when the people who observed the new rules of disability and also those that had never contributed were included. Among the beneficiaries of the BPC for older adult two leaps are observed: one between 1997 and 1999 and another one between 2004 and 2005, when the reductions of the minimum age to access benefits became valid, anticipated in the LOAS. The first age was reduced from 70 to 67 and then from 67 to 65 after the approval of the Statute of the older Adult. In addition to changes in the rules, other factors influenced the increase of the target population of the BPC. As an example we can mention the general conditions of life of the population and the real increases in minimum wages (that located a greater amount of people below the stipulated poverty line).

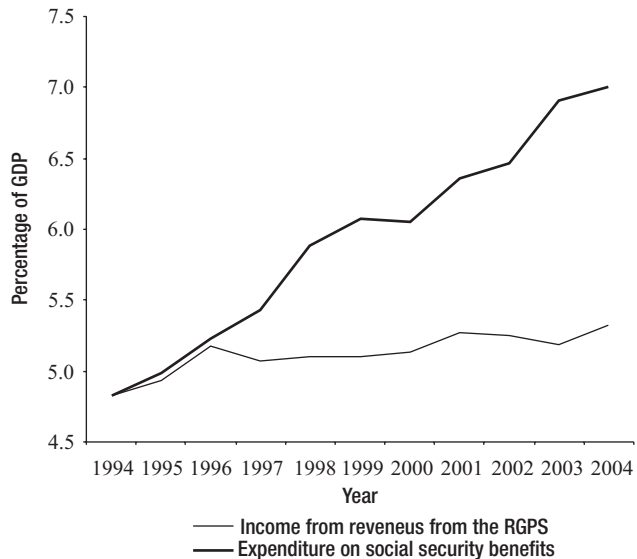
In addition, the BPC has a potential to expand out without altering the present criteria of eligibility. This happens because of the existence of a contingent of people that could be benefited, but that does not receive the benefit. In agreement with data of the *Pesquisa Nacional de Amostra por Domicílios* (PNAD) of 2003, there were about 150 thousand older adults with familiar rent per capita inferior to ¼ of minimum wage, who do not receive any type of benefit. In addition, there are disabled that also could be receiving the benefit, but do not. On the other hand, it is possible to find people who do not fulfil the eligibility criteria, but still receive the BPC. In order to avoid this type of situation, periodic evaluations among the beneficiaries are carried out, in order to confirm that such people are still in vulnerability situation.

#### 4. Current Limits of the *Regime General de Previdência* (RGPS) and Long-Term Perspectives

The evolution of net revenues and expenditure on the payment of social insurance benefits of the RGPS between 1993 and 2004 shows, from 1996 (see Figure 1), the beginning of a growing financial need that in the two years 1993-1994 was close to 1.7% of GDP

The existence of “this financial need” was expected, given the analysis of the previous sections. To a great extent it reflects the new social entitlements designed for the rural sector (notice the correlation between the balance/deficit of the provident rural fund and the corresponding balance/deficit of the RGPS fund between 1994 and 2001 in Delgado and de Castro, 2003).

**Figure 1**  
**Evolution of Net Revenues and of Expenditure on Benefits in the RGPS (1994-2004)**  
(as a percentage of GDP)



This financial need was included in the Budget of Social Security without increasing the public debt because there was an expansion of the tributary sources of the social insurance during the period;<sup>5</sup> however, they had apparently reached their ceiling in 2005.

To this financial situation in the RGPS has to be added the financial need of the Public Servants Scheme (*Regime Próprio de Servidores Públicos da União*) that is close to 1.5% of GDP and which is also financed by the social security budget.

The current fiscal-provident issue is about the trend that this synthesis variable will follow in the next decade, given the situations and trends of revenues and expenditures.

The nineties were marked by facts that had a direct impact on social insurance. During this period, a set of constitutional mechanisms was regulated and implemented. It modified the Brazilian social insurance system, increasing its coverage and providing a political characteristic of income redistribution. The argument for *Previdência Rural*—a type of social insurance that does not require contributions to receive benefits—and the linkage of the provident floor to the minimum wage are examples of these changes (that ended up having a very positive impact in the reduction of poverty levels). These new characteristics of the Brazilian social insurance system, combined with other factors such as population aging and monetary stability, produced further financial pressures on the expenditure on provident benefits, which grew at a faster pace than the level of taxes levied by the INSS, as can be observed in Figure 1. In 1995, the net revenue was of 5% of GDP, and in 2004 the amount levied by the INSS was of 5.4% of GDP. On the expenditure side,

<sup>5</sup> For an analysis of the budget during this period see IPEA (2004) and IPEA (2005a).

the variation of the expenditure on provident benefits was much greater: between 1995 and 2004 expenditures increased from 5% to 7.3% of GDP.

The Brazilian provident system is a PAYGO system financed mostly with payroll taxes. The resources levied by the INSS are directly affected by the level of formalization and by the average returns of the working population, which in turn depends on the performance of the economy. The period under analysis is affected by low rates of growth and by changes in labor relationships, with a decreasing participation of formal workers.

The different trends in expenditure and provident income shown in Figure 1 provide some evidence of the different economic-provident features that explain them. The features that determine the expenditure on benefits, disaggregated in terms of prices and quantities, can be described with the following incremental equation:

$$\frac{\Delta B_t}{B_0} \cdot \frac{1}{INPC} = \left[ \left( \frac{\Delta \text{Stock } B_t}{\text{Stock } B_0} \cdot \frac{\bar{P}_t}{P_0} \right) + \left( \frac{\Delta P_{wt}}{P_{w0}} \cdot \frac{B_{w0}}{B_0} \right) \right] \cdot \frac{1}{INPC} + \left[ \frac{\Delta d}{B_0} \right] \cdot \frac{1}{INPC}$$

where:

$B_t$  &  $B_0$  Are the total amounts of the benefits paid in the two periods, deflated with a Price Index (INPC)

$\Delta \text{Stock } B_t$   
&  $\text{Stock } B_0$  Are the physical amounts of the stock of benefits paid in each period, weighed by the average prices in each period

$\frac{\Delta P_{wt}}{P_{w0}}$  Equals the increase in the minimum wage in period t over a base of zero.

$\frac{B_{w0}}{B_0}$  It is the participation in the value of benefits of minimum wage over the total value of benefits.

$\frac{\Delta d}{B_0}$  Corresponds to the judicial decisions about the payment of past benefits, or a part of them, as a debt of the provident system by definite judicial decision.

Two key variables are then observed to determine the real increase in expenditure: the annual variation of the stock of benefits and the real increasing rate of the minimum wage. The first, as seen in Section 1, presents a strong demographic-provident component, which is determinant and in the last 25 years has been close to 4-4.5% of variation per year. The second variable—the minimum wage—in the last 10 years has increased more than the rate of growth of GDP. This implied that in the period 1995-2004 (9 years of increment) a growth in expenditure of 100% in real terms occurred, which corresponds to an annual average increase of 8.5%.



**Table 5**  
**Annual Variation of Expenditure on Benefits (RGPS),**  
**Revenues from the Social Insurance Scheme and GDP, 1995-2004**  
 (percentage)

Annual variation	1996	1997	1998	1999	2000	2001	2002	2003	2004	95/2004
Expenditure	9.0	10.9	11.2	3.8	6.3	6.0	6.0	4.40	14.1	1.9850
INSS revenues	9.0	3.4	1.9	0.1	6.8	4.3	2.0	-0.26	10.8	1.4223
GDP	2.7	3.3	0.1	0.8	4.4	1.4	1.5	-0.20	5.0	1.2052

In the same period (1995-2004) the net provident revenue (RGPS) has a real variation of 42% (see Table 5).

Finally, the GDP grew cumulatively in these nine years (20.5%), with an average annual increase of 2%. It is important to note that throughout all the period the social insurance revenue almost doubled the rate of growth of GDP. This is not a casual result since it provides a remarkable clue to understand the dynamics of the social insurance accounts of the current economic and demographic cycle.

Because social insurance revenue is more complex and difficult to be written as an equation, as we have done with the expenditure, we observe the relation between revenue and GDP, which is self evident. With an elasticity of provident revenues related to GDP of 2, as can be inferred from the data of the period 1995-2004, two peculiar features of the Brazilian provident cycle are observed: a) a labor market sensibility to provident affiliation that depends on the rate of economic growth, b) a high sensibility of provident credit recovery of debtors, that also depends on the rate of economic growth.

If the hypothesis stated above was significant for the determination of the elasticity of revenue to GDP around 2, we could infer a virtuous thesis that a definite trend of economic recovery—around 4 to 5% per year—would stabilize and reverse the financial need of the RGPS—around 1.5% of GDP. This situation can be completely assimilated with the financing capacity of the Brazilian Budget of Social Security.

Finally, it is important to note that the financial needs of the Federal social insurance system—RGPS and the Public Servants Scheme were not until now responsible for the creation of the net public debt. This occurs because of the increment on taxes of the last decade and half that supported the expansion of the expenditure on benefits, combined with the low growth of the economy. (See the average growth of GDP around 2% between 1995 and 2005).

Nevertheless, the inflexible character of social insurance expenditure to go downwards and the partial determination of demographic-provident variables, impose the need of economic growth as a condition to the sustainability of social insurance grants.

Finally, the hypothesis of inclusion in social insurance of new groups of workers, even if they are informal—informal urban workers mainly, which are still extensively excluded from social security. For these workers and the ones which already are insured, the capacity of financing of the social insurance system will depend to a large extent in the rhythm and the model of economic development prevalent in the near future.

## 5. Conclusions

The increase in the social insurance coverage during the period of analysis (1988-2004) is significant. Measured in terms of provident benefits and of welfare programs, the coverage doubled since the new social constitutional rights of the social security started (1991).

On an opposite trend of the widening of the rights, the salaried labor market, basic source of the social provisional arrangement, contracted sharply, sending more than 10 millions of workers (in net terms) off the provisional contributory system between 1980 and 2000 (14.5% of the EAP lost between the two demographic census).

The opposite movements of the widening of the provisional coverage and the reduction of the formal labor market have fiscal consequences for the social security budget, as is concluded in the next paragraphs; nevertheless it responds to its own logic. The enlargement of the social insurance and welfare programs in the last decade and a half reflexes two independent processes: i) the increase in coverage in the social security in the years 1960 and 1970, consequence of the strong industrial growth cycle of 1930-1980; and ii) the incorporation of the rural families into the welfare program in the 1990s—under the umbrella of the concept of provident-social security, of redistribute nature.

Notwithstanding the strong economic contraction and the decrease in the formal salaried employment in social insurance, the age profile of the “Population in Active Age” (PAA 15-60 years); and of the elderly (60 years and older), continues to be favorable in relative demographic terms. With a PAA of 63% in 2005 and an elderly population equivalent approximately to 8.5%, the age profile of the population reflects a better demographic transition in provisional terms than the profile of Europe or North America, regions where the elderly population is equivalent to the triple or double of that of Brazil.

The increase in the coverage of insured population to the *Previdência Social* only occurred in the rural areas—consequence of the introduction of the special insurance program for the rural families. The increase was significant, close to 10% of the PAA was affiliated to the provident program, persons that might otherwise not be incorporated to the scheme, given the lack of a link to the salaried job. This modality of jobs was never dominant in the rural areas and neither the variety of arrangements of self employment in the familiar agriculture. After a decade since the implementation of the *Previdência Rural*, there exists strong evidence of its redistributive effects and on its effects in reducing poverty in the rural areas.

The increase of the provident-welfare schemes during the last decade and a half has had fiscal impacts, and has shown its redistributive nature. As a consequence, the financial requirements of the *Regime Geral de Previdência Social* (RGPS) has grown over the years—up until 1996 it showed a cash flow equal to zero, and today requires transfers from the Budget of the Social Security—approximately equal to 1.7% of the GDP. During the periods of economic semi-stagnation, it is financed through a rise in the “Social Contribution” taxes.

In the future, the process of provident and welfare inclusion requires increasing the coverage in the occupational structure. Nevertheless, the labor markets and the social insurance programs that will be implemented in the future will not repeat the past (inclusion of the formal salaried work). Neither, it is possible to make a social security system financially viable unless a steadily economic growth, not lower than 4-5% per year, is reached.

There exist neo-conservative public voices that suggest a reform of the social insurance system aimed at eliminating the basic rights of the social security. The main argument in this position is the fiscal unsustainability associated to the new social rights and also to the cost of the demographic transition.

The main hypothesis in this article is that there exists an acute crisis in the labor market, characterized by a strong reduction in the salaried jobs. This is the main factor that explains the crises in the provisional systems. In this context, the basic social security rights have a role as countercyclical protection to the poor informal workers. The reduction or elimination of those rights—an argument in the current ultra conservative agenda—exacerbate the social inequality and does not solve the economic development dilemma. It is not possible the economic development without the incorporation of the informal work force to the formal economy. Moreover, without economic growth, the social security financial requirements rise and the financial sources are exhausted.

The social insurance reform that makes sense, in the context of our central hypothesis, is the one that, in a creative way, incorporates to the social insurance schemes the multiple productive and occupational arrangements present in the labor market. In the meantime, economic growth is required while the social security transfers to the poorest insured a reasonable proportion of resources—the current amount for example (1.7% of the GDP)—in order to make a viable transition to insure the several modalities in the family arrangements present in the informal economy. The financial contribution of this informal sector to the social insurance system will be required only when that activities and/or labor arrangements produce a monetary surplus.

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