

# BUDGETARY BREAKDOWN

## Brazil and the United States

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Challenges of the Contemporary  
Administrative State

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# Dysfunctional Budgeting Works ... Until It Doesn't

Nine years ago, I began a report on budgeting in Brazil with the following words:

**“BRAZIL HAS A DYSFUNCTIONAL BUDGETING  
SYSTEM THAT WORKS.”**



I was wrong: Dysfunctional budgeting can work in the short run. Eventually it breaks down.

The short run is much longer in the United States than in Brazil, but both countries face breakdown and the need for corrective action.

# Dysfunctional Budgeting : How Brazil and the U.S. are Similar

Separated Political Systems: Brazil and the United States have separated political systems that empower the president to propose the annual budget and congress to vote appropriations

Rigid Expenditures. Mandatory entitlements account for more than half of national expenditures in both countries, though the percentage is higher in Brazil, and many expenditures are earmarked by constitution

Weak Budgetary Discipline. Despite a fiscal responsibility process (Brazil) and congressional budget (United States), both countries have lacked budgetary constraint, especially during boom times when revenues are soaring and the future seems limitless

## Dysfunctional Budgeting : How Brazil and the U.S. are Similar, *cont.*

Under-Investment. Consumption expenditures (government purchase of goods and services and transfer payments crowd out investment, but the problem is much worse in Brazil which has had a larger infrastructure deficit

Low Trust in Political Institutions. Trust scores are low in both countries. Low trust is a byproduct of budgetary (and political) dysfunction, and makes it harder for government to have responsible budgets

Corrective Budgeting Occurs in Both Countries. Correction occurs more quickly in Brazil which has experienced repeated boom and bust cycles, but also occurs in the United States

# Dysfunctional Budgeting : How Brazil and the U.S. Differ

Economic Development. Per capita GDP (on a PPP basis) is four times higher in the United States. Public expenditure in Brazil is a much higher share of GDP than in other countries at a comparable stage of development

Corruption. Brazil ranks 96<sup>th</sup> with a corruption perception index of 37 (in 2017); the United States ranks 16<sup>th</sup> with a score of 75

Political Parties. The U.S. has a more defined party system with two parties holding almost all Congressional seats. Brazil has multiple parties some of which are centered more around personalities than issues. (In recent years, the Republican Party has been beholden to personalities.)

# Dysfunctional Budgeting : How Brazil and the U.S. Differ, *cont.*

National Planning. Brazil has an elaborate national planning system designed to influence budget allocations, though planning's impact has declined in recent years. The U.S. does not have a national planning system

Global Exposure. Brazil is much more vulnerable to swings in exchange rates, commodity prices and interest rates

Capital Mobility. Capital flees Brazil in times of economic crisis, while capital migrates to the United States

Budget Implementation. Budget implementation in the U.S. is highly decentralized. Brazil imposes short-term quotas on public expenditures, and at times the President has modified the approved budget through decrees

# Remedial Budgeting: Brazilian and American Styles

- Dysfunctional budgeting has produced recurring economic and political crises in Brazil. In the U.S. it has produced unpalatable outcomes.
- Brazil responds more quickly to dysfunction than the United States, and generally takes stronger actions. Its main response to the current crisis has been to cap increases in public spending at the inflation rate, thereby precluding real increases in expenditures. Without significant pension reform, this objective will not be achievable.
- Lacking immediate crisis, the United States has not yet responded to projected steep increases in budget deficits and public debt. It will defer responses if interest rates remain low, economic growth continues, and voters are unconcerned about rising deficits.



## Remedial Budgeting: Brazilian and American Styles, *cont.*

- The American habit is to make process changes in tandem with, or as substitutes for, policy changes. Brazil already has a near textbook perfect set of procedures inscribed in its constitution, so it will have to focus on changes in substantive policies.
- Remedial budgeting depends on economic growth, but if it is prolonged and robust, growth sets the stage for the next cycle of dysfunctional budgeting.