The Challenges of the Administrative State: Brazil and the United States in Comparative Perspective

May 23, 2018

GEORGE SOARES
Secretary of Federal Budget
Ministry of Planning, Development and Management
INSTITUTIONAL ASPECTS: FEDERAL BUDGET OFFICE (FBO)

Secretary

Technical Advisory

Fiscal Affairs

Evaluation and Institutional Relations

Corporate Management

Staff 4

Budgetary Management

Fiscal Affairs

Evaluation and Institutional Relations

Corporate Management

Social and Special Department

Economic and Infrastructure Department

Macro Budgetary

Payroll, Benefit and Sentences

Public Revenues

Evaluation Program of Government

Institutional Relations and Control Affairs

Strategic Programs of Government

Technology

Administrative and Human Resources

Micro Analisys (non mandatory expenditures)

Macro Analisys (mandatory expenditures)

Cross-Section (procedure for all)

Management Staff and Administrative

High Staff

Advisory of Secretary

Total Technical Staff of FBO 184

Decree # 9.035
Apr 20, 2017
LEGAL FRAMEWORK

**Permanen Rules**
(*) until 2036 with review in 2026

**Transitional Rules**

**NFR New Fiscal Rule**
(CA # 95/2016)

1. Lists the government macro challenges, identifying the strategic view that will be pursued in the period of 4 years. It brings Programmatic elements.
2. Annual budget drafting and execution guidelines, PPA Goals and Priorities for the following year.
3. Estimates revenue, establishes spending, authorizes additional credits, details organizations budgeting programming. Thematic Programmes, Management and Special Operations; Budget Actions.

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**FRL – Fiscal Responsibility Law**

- Multi-year (4) investment framework - PPA¹
- 3-year macro framework & fiscal targets - LDO²
- Annual Budget Law - LOA³
- Expenditure Limits & Programing Decree (art 8-9 FRL)
COMPATIBILITY INSTRUMENTS: PLAN (PPA) X BUDGET (LOA)

**CONTENT**

- Future Vision, Values and Challenges.
- Program characterization, Indicators, Estimated Global Expenses.
- Objective characterization, responsible Government Agency, Global Goals and Goals per region.
- Goods and services delivered to society by coordinate budgetary and non-budgetary actions.
- Goods and services delivered to society or to the State. Bounded directly to Programs and Initiatives.
- Expense location on national territory.

**PLAN STRUCTURE**

- Strategic Dimension
- Objectives*
- Initiatives*

* Only in Theme Programs

**BUDGET STRUCTURE**

- Programs
- Objectives*
- Initiatives*
- Subtitles

**BUDGET STRUCTURE**

- Budgetary Actions
- Strategic Dimension
- Subtitles
# LDO: MEDIUM TERM FISCAL FRAMEWORK (MTFF)

<table>
<thead>
<tr>
<th>Parameters</th>
<th>2018 Evaluation</th>
<th>2019 FBO</th>
<th>2020 FBO</th>
<th>2021 FBO</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP real (%)</td>
<td>3,0</td>
<td>3,0</td>
<td>2,4</td>
<td>2,3</td>
</tr>
<tr>
<td>GDP Nominal (US$ billions)</td>
<td>2.102,4</td>
<td>2.264,2</td>
<td>2.425,2</td>
<td>2.597,1</td>
</tr>
<tr>
<td>Inflation acum (%)</td>
<td>3,6</td>
<td>4,2</td>
<td>4,0</td>
<td>4,0</td>
</tr>
<tr>
<td>Rate Over - SELIC Average (%)</td>
<td>6,5</td>
<td>7,7</td>
<td>8,0</td>
<td>8,0</td>
</tr>
<tr>
<td>Average Exchange Rate (R$ / US$)</td>
<td>3,3</td>
<td>3,3</td>
<td>3,4</td>
<td>3,5</td>
</tr>
<tr>
<td>Average Oil Price (US$/barril)</td>
<td>65,0</td>
<td>60,5</td>
<td>58,0</td>
<td>56,6</td>
</tr>
<tr>
<td>Minimum Wage Value (US$ 1,00)</td>
<td>286,1</td>
<td>300,5</td>
<td>322,7</td>
<td>345,8</td>
</tr>
</tbody>
</table>

Source: SPE/MF  
Elaboration: FBO/MP
## LDO: MEDIUM TERM FISCAL FRAMEWORK (MTFF)

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>Evaluation</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ million</td>
<td>% GDP</td>
<td>US$ million</td>
<td>% GDP</td>
<td>US$ million</td>
</tr>
<tr>
<td><strong>I. TOTAL FISCAL REVENUES</strong></td>
<td>414.820,8</td>
<td>21,08</td>
<td>438.769,7</td>
<td>20,87</td>
<td>462.852,9</td>
</tr>
<tr>
<td>I.1. Revenues Collected by SRF, except RGPS</td>
<td>250.606,4</td>
<td>12,74</td>
<td>268.144,2</td>
<td>12,75</td>
<td>286.002,6</td>
</tr>
<tr>
<td>I.2. Fiscal Incentives (tax benefits)</td>
<td>-413,6</td>
<td>-0,02</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td>I.3. Revenues for the Social Security Fund</td>
<td>112.407,3</td>
<td>5,71</td>
<td>118.691,1</td>
<td>5,65</td>
<td>128.023,6</td>
</tr>
<tr>
<td>I.4. Other revenues collected by SRF</td>
<td>52.220,6</td>
<td>2,65</td>
<td>51.934,5</td>
<td>2,47</td>
<td>48.826,7</td>
</tr>
<tr>
<td><strong>II. TRANSFERS to States and Municipalities</strong></td>
<td>68.525,3</td>
<td>3,48</td>
<td>73.805,2</td>
<td>3,51</td>
<td>79.871,3</td>
</tr>
<tr>
<td><strong>III. NET REVENUE (I - II)</strong></td>
<td>346.295,5</td>
<td>17,60</td>
<td>364.964,5</td>
<td>17,36</td>
<td>382.981,5</td>
</tr>
<tr>
<td><strong>IV. EXPENDITURES</strong></td>
<td>383.606,4</td>
<td>19,50</td>
<td>412.185,7</td>
<td>19,61</td>
<td>424.671,1</td>
</tr>
<tr>
<td>IV.1. Expenditure on Social Security</td>
<td>167.128,7</td>
<td>8,49</td>
<td>177.667,3</td>
<td>8,45</td>
<td>190.582,0</td>
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<td>IV.2. Personnel Expenditures</td>
<td>85.191,0</td>
<td>4,33</td>
<td>90.743,4</td>
<td>4,32</td>
<td>96.570,8</td>
</tr>
<tr>
<td>IV.3. Outras Desp. Obrigatorias</td>
<td>59.160,5</td>
<td>3,01</td>
<td>63.905,4</td>
<td>3,04</td>
<td>67.514,7</td>
</tr>
<tr>
<td>IV.4. Other Mandatory Expenditures</td>
<td>37.925,3</td>
<td>1,93</td>
<td>41.204,8</td>
<td>1,96</td>
<td>40.495,1</td>
</tr>
<tr>
<td>IV.5. Non-Mandatory (Discriminatory) Expenditures</td>
<td>34.201,0</td>
<td>1,74</td>
<td>38.664,7</td>
<td>1,84</td>
<td>29.508,6</td>
</tr>
<tr>
<td><strong>V. PRIMARY RESULT (III - IV)</strong></td>
<td>-124.400,9</td>
<td>-1,90</td>
<td>-47.221,2</td>
<td>-2,25</td>
<td>-41.689,6</td>
</tr>
<tr>
<td>VI.1. Result of Tresury</td>
<td>17.410,4</td>
<td>0,88</td>
<td>11.755,0</td>
<td>0,56</td>
<td>20.868,7</td>
</tr>
<tr>
<td>VI.2. Result of Social Security</td>
<td>-54.721,3</td>
<td>-2,78</td>
<td>-58.976,7</td>
<td>-2,81</td>
<td>-62.558,3</td>
</tr>
<tr>
<td><strong>VI. STATISTICAL ADJUSTMENT</strong></td>
<td>1.787,2</td>
<td>0,09</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td><strong>VII. FEDERAL PRIMARY RESULT (V+VI)</strong></td>
<td>-35.523,8</td>
<td>-1,81</td>
<td>-47.221,2</td>
<td>-2,25</td>
<td>-41.689,6</td>
</tr>
<tr>
<td><strong>IX. PRIMARY SURPLUS TARGET</strong></td>
<td>-47.688,1</td>
<td>-2,42</td>
<td>-47.688,1</td>
<td>-2,27</td>
<td>-41.689,6</td>
</tr>
</tbody>
</table>
Each sectorial unit presents its proposal

Balance Estimate

FBO analyses the sectorial proposals

The budget proposal is ready

The Congress discusses and approves

Budget Execution

TOP DOWN

BOTTON-UP

MIDDLE TOP (NEGOTIATION)
THE NEW FISCAL RULE  
(CA # 95/2016)

- Expansion of primary spending over the next 10 years can’t be higher than inflation for all Branches

- In the tenth year the President can propose to Congress a change in the rate of correction on the limit, to be valid for another 10 years, being renegotiated once time every each presidential term

- The minimum health and education threshold is now being corrected for inflation (protection of these sectors)

- **Budget Realism:** budget law spending can’t exceed the spending limit

- **There isn’t punishment or paralysis of the programs:** noncompliance triggers automatic measures of expenditure control in the following year

- **There is a exemption for:** intergovernmental transfers, education support for state and municipalities (Fundeb), electoral process and unexpected or contingent expenses.
THE NEW FISCAL RULE
(CA # 95/2016)

- Compatibility of the **main limits of constitutional expenses** with the rule growth of expenses:
  - **Education**: minimum limit threshold as of 2018 → the established in 2017, by the rule of art. 212 of Constitution (18% of Taxes), corrected the variation by inflation from $t_{-1}$ to $t_0$
  - **Health**: minimum limit in 2017 will be 15% of the RCL, and from 2018, the minimum value of 2017 will be adjusted by inflation from $t_{-1}$ to $t_0$

- **Mandatory Amendments**: minimum threshold established in 2017, that was 1.2% of the RCL of 2016, corrected by the variation inflation from $t_{-1}$ to $t_0$

- As of PLOA 2019, all constitutional **limits will already be known in advance** when the PLOA was drafted in August 2018

- Non-compliance, verified at execution, **doesn’t affect the state action in progress, but triggers automatic fences from the following year**, until the return to the rule.
Limits of NFR CA 95/2016 (α)

Proposal (PLOA)
Budget is same or less than (α)

Law (LOA)
Budget is same or less than (α)

LOA + Additional are same or less than (α)

Additional Allocation provided that it respects the value of (α)

Obs: The other operations that affect the Primary Result, impact on the definition of PLOA / LOA / Additional Credits
CASH LIMITS OF NFR CA # 95/2016

Limits of NFR CA 95/2016 ($\alpha$)

LOA + Additional are same or less than ($\alpha$)

(+) Carry-over (RAP)

(-) Sequestration (contingency)

(+) the other operations that affect the Primary Result
THE FIRST RESULT: NEW FISCAL RULE IN PRIMARY RESULT (CA # 95/2016)

Evolution of Primary Revenues and Expenditures (except transfers)
% of GDP - 2002 a 2017

Obs: The NFR #95/2016 didn't exclude compliance with the fiscal targets established in LDO, they are complementary instruments.
THE FIRST RESULT: NEW FISCAL RULE IN FEDERAL BUDGET (CA # 95/2016)

Primary Expenditure (US$ billion current)
THE FIRST RESULT: NEW FISCAL RULE IN EVIDENCE (CA # 95/2016)

- Evidences of cultural change in dealing with federal budget expenditures:
  - Allocation of high-level priorities, in particular the recognition that staff costs also impact the cost of the agency, it is a primary expenditure. Ex. Judicial Branch
  - Forecasts with more accuracy in mandatory expenditures, because the problems to making adjustments during budget execution will be greater. Ex. FAT x FGE
  - Resources for new things to investments arising from mandatory amendments are being revalued by agencies, and putting technical impediment, given that some impact on increasing the costs of funding for then in the future
  - However, for Congress, the reality of the NFR has not been imposed yet, once benefits continue to be extended without considering the trade-off effect in other policies in progress. Ex. FunRural