

# Does Preston's (1984) argument apply to the generational distribution of public transfers in Brazil?

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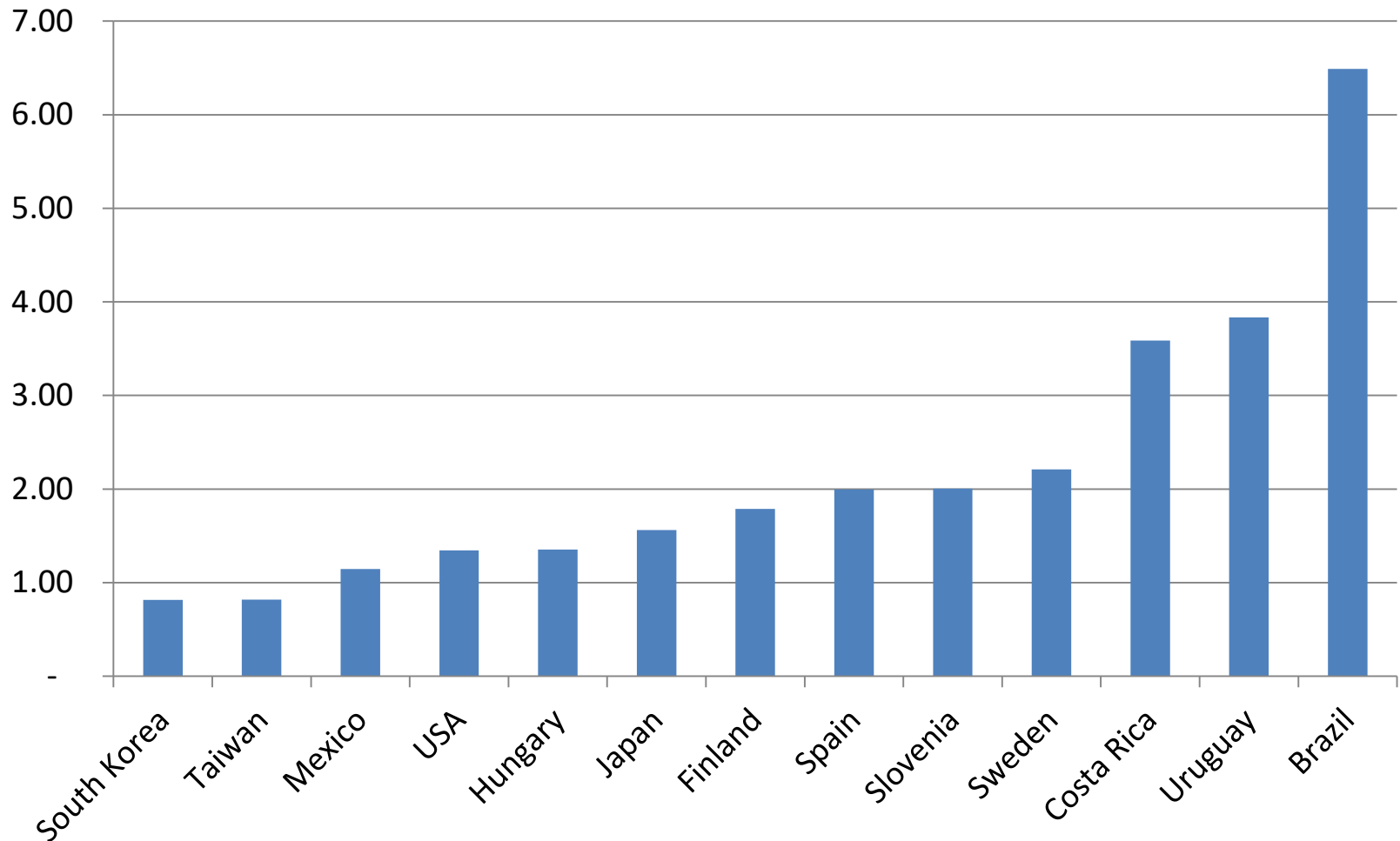
UFMG

## Background

- Since the first days of NTA, we have been intrigued by the elderly-biased public transfers in Brazil

Compared to “older” countries, Brazil has larger net public flows directed to the elderly relative to children

Ratio of net public transfers: Elderly to children



# Poverty Rates in Brazil, 1970 and 2001

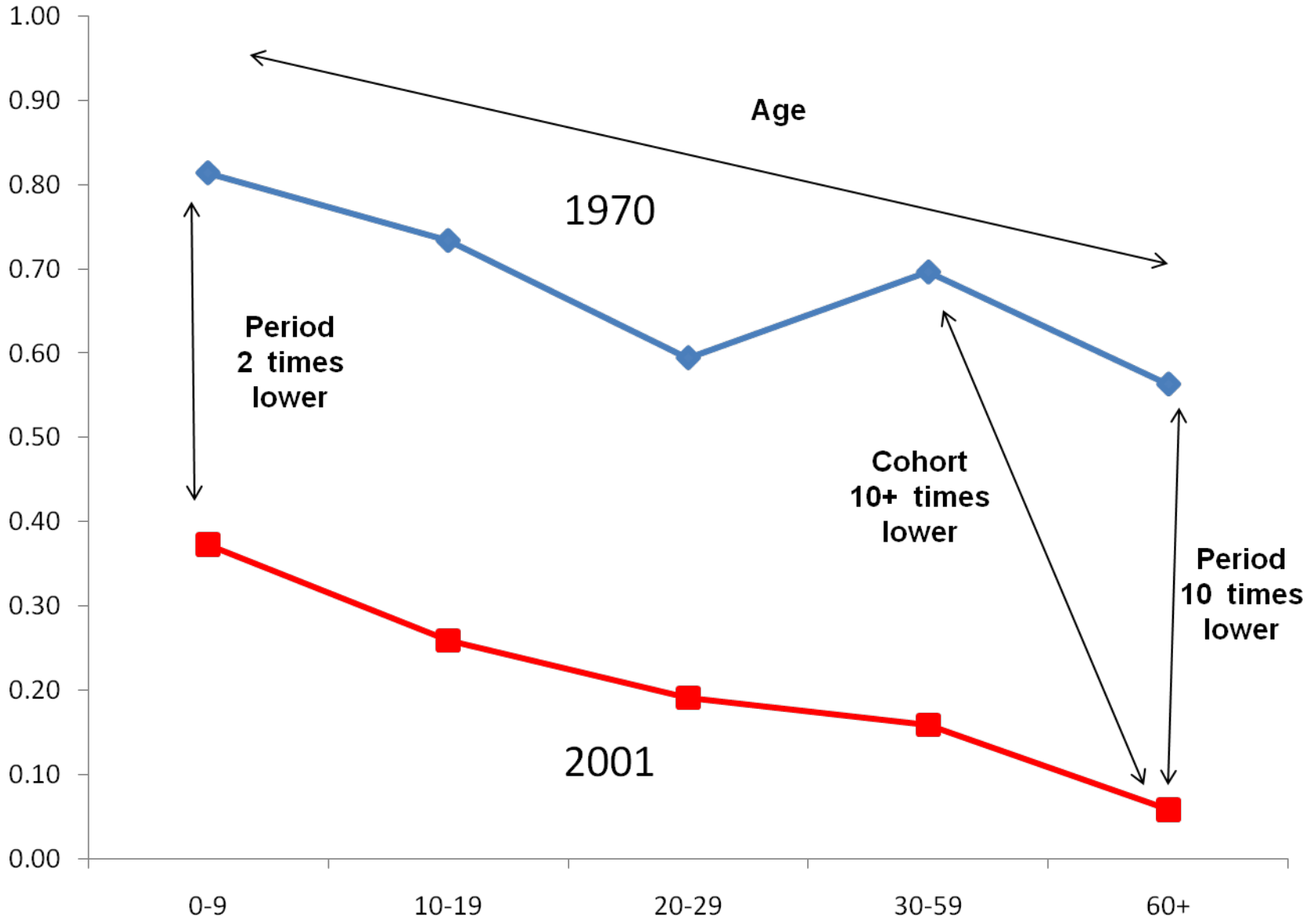
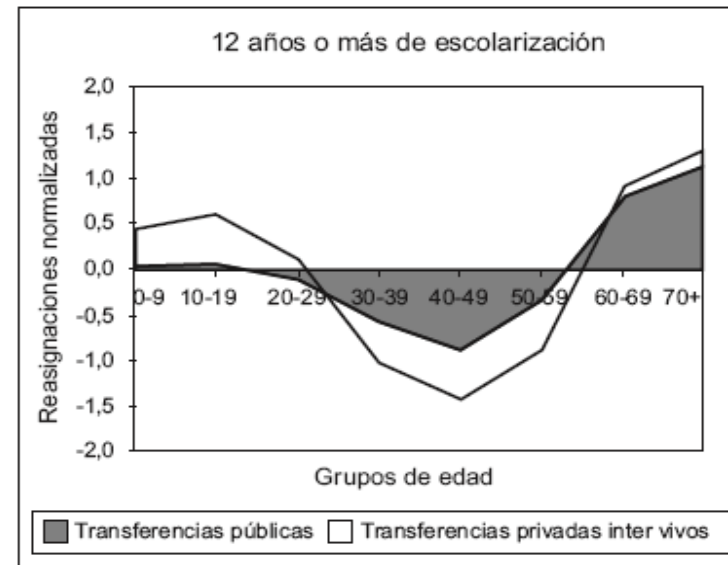
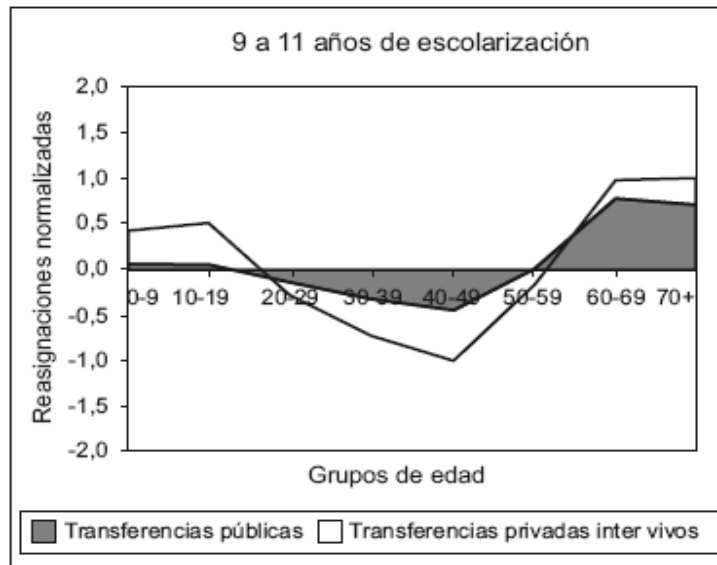
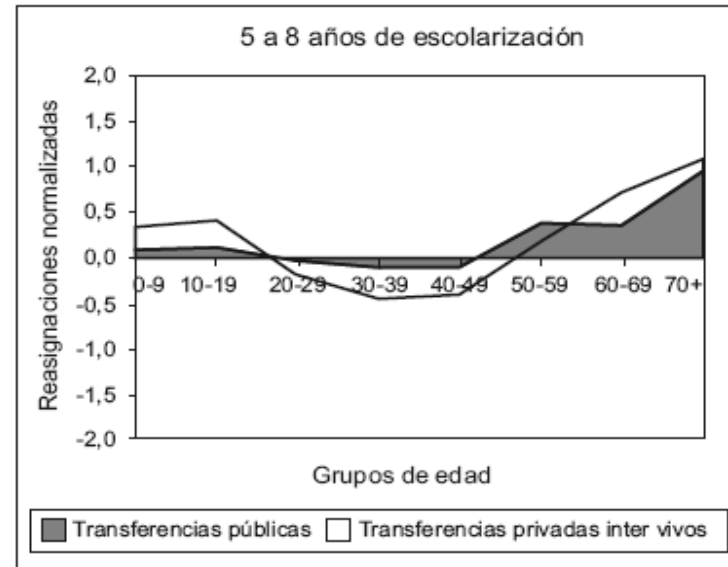
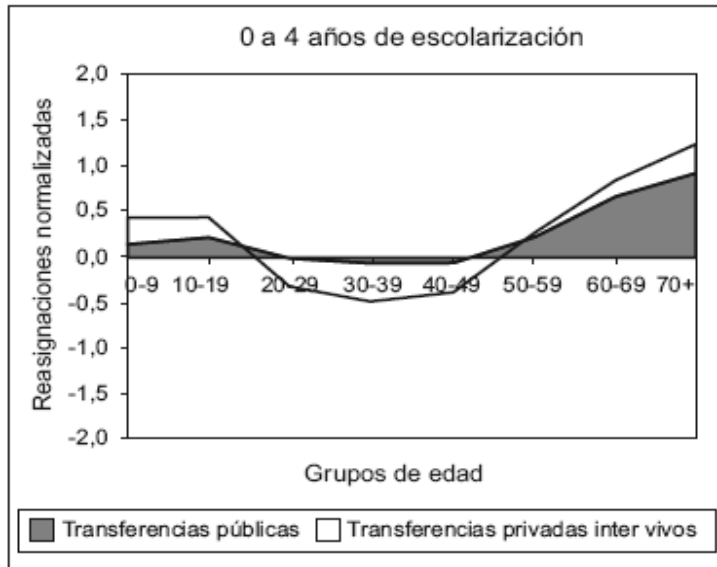


Gráfico 3

REASIGNACIONES ETARIAS POR NIVEL DE INSTRUCCIÓN<sup>a</sup> NORMALIZADAS,<sup>b</sup>  
BRASIL 1996



# Historical Development of Public Transfers

1. Becker and Murphy's Efficiency Hypothesis: Investments in education precede the development of social security
2. Industrial-bias / urban-bias explanation (Filgueira-Draibe):
  1. Dual system of social states favors the urban middle class in the formal sector
  2. Urban middle-class provides the needed skilled labor force and gets protection at older ages

# Background

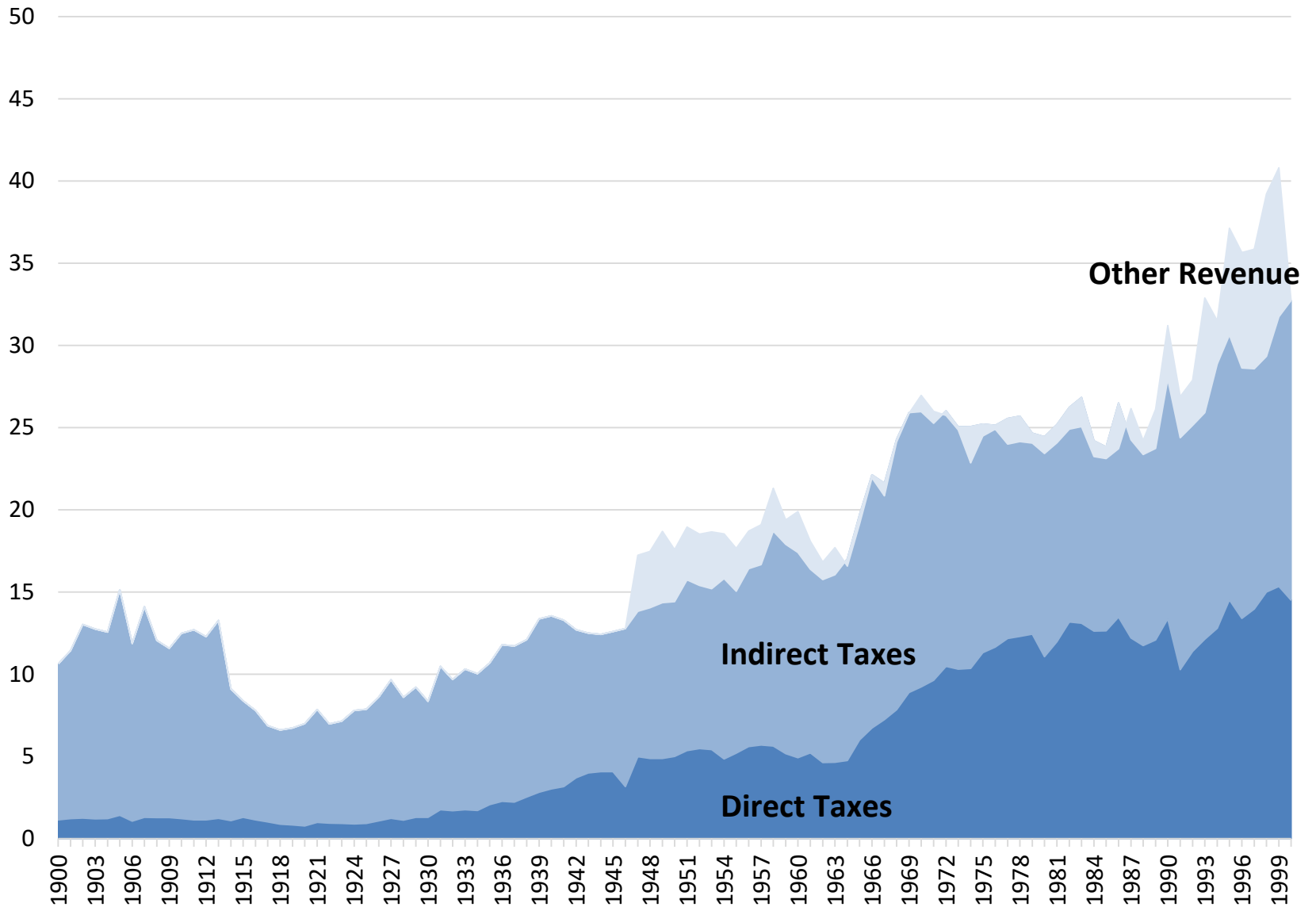
- Since the first days of NTA we have been intrigued by the elderly-biased public transfers in Brazil
- Does the initial set of NTA estimates (1996) reflect a unusual configuration for a specific year or a more structural pattern that benefited entire generations?
  - Araujo, Turra and Queiroz (2010) looked at historical data for public education and social security and found important net transfers to the elderly not only in the more recent decades (period) but across birth cohorts: 1923-1953 (gainers); 1953-1983 (losers)
  - But results may be biased since focus was on social security and education only

# Objective

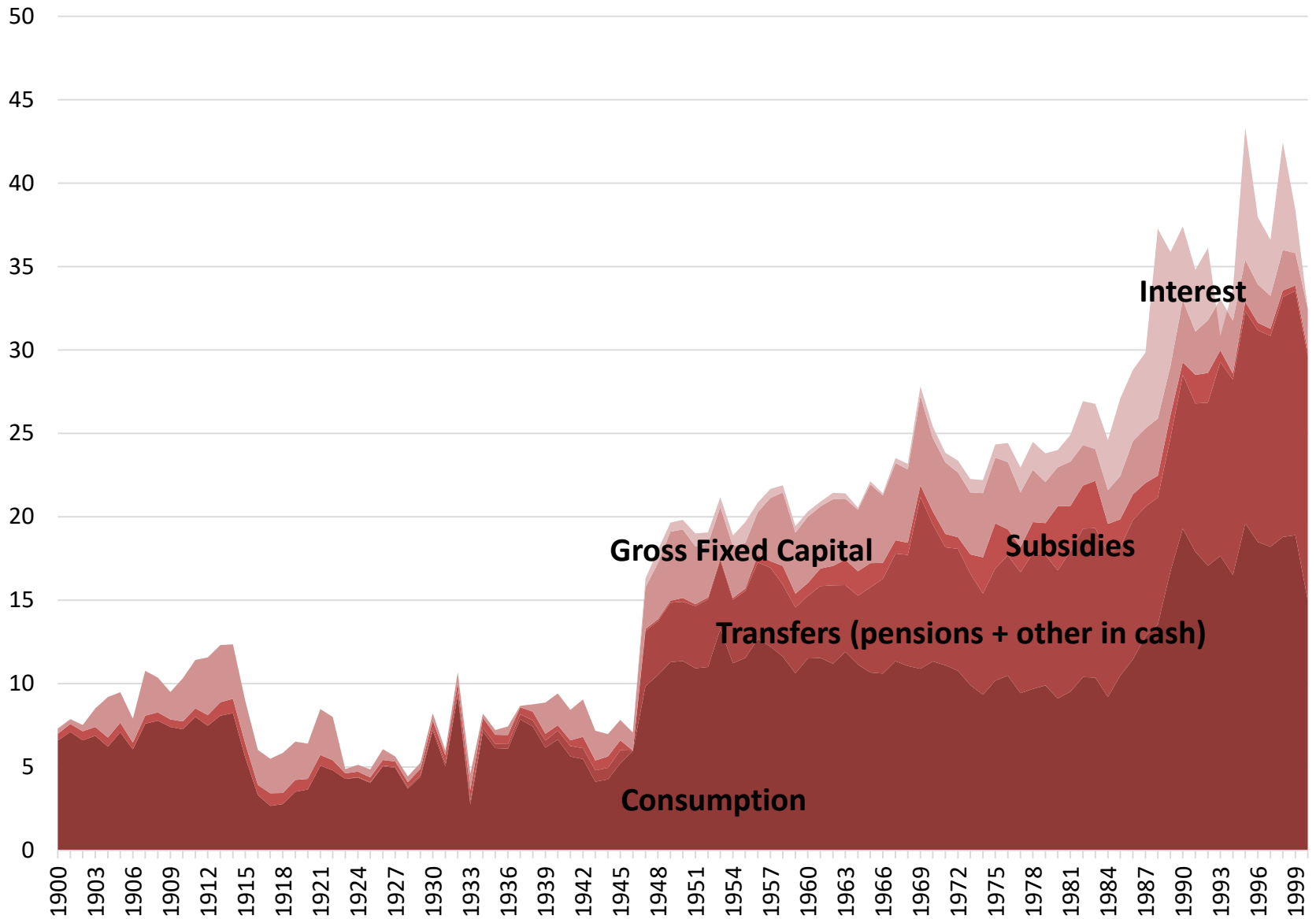
- To estimate a more complete historical set of public accounts for Brazil and re-examine the question
  - Add data for years earlier than 1923
  - Include estimates for public health
  - Include other cash and in-kind transfers
  - Distinguish direct and indirect taxes



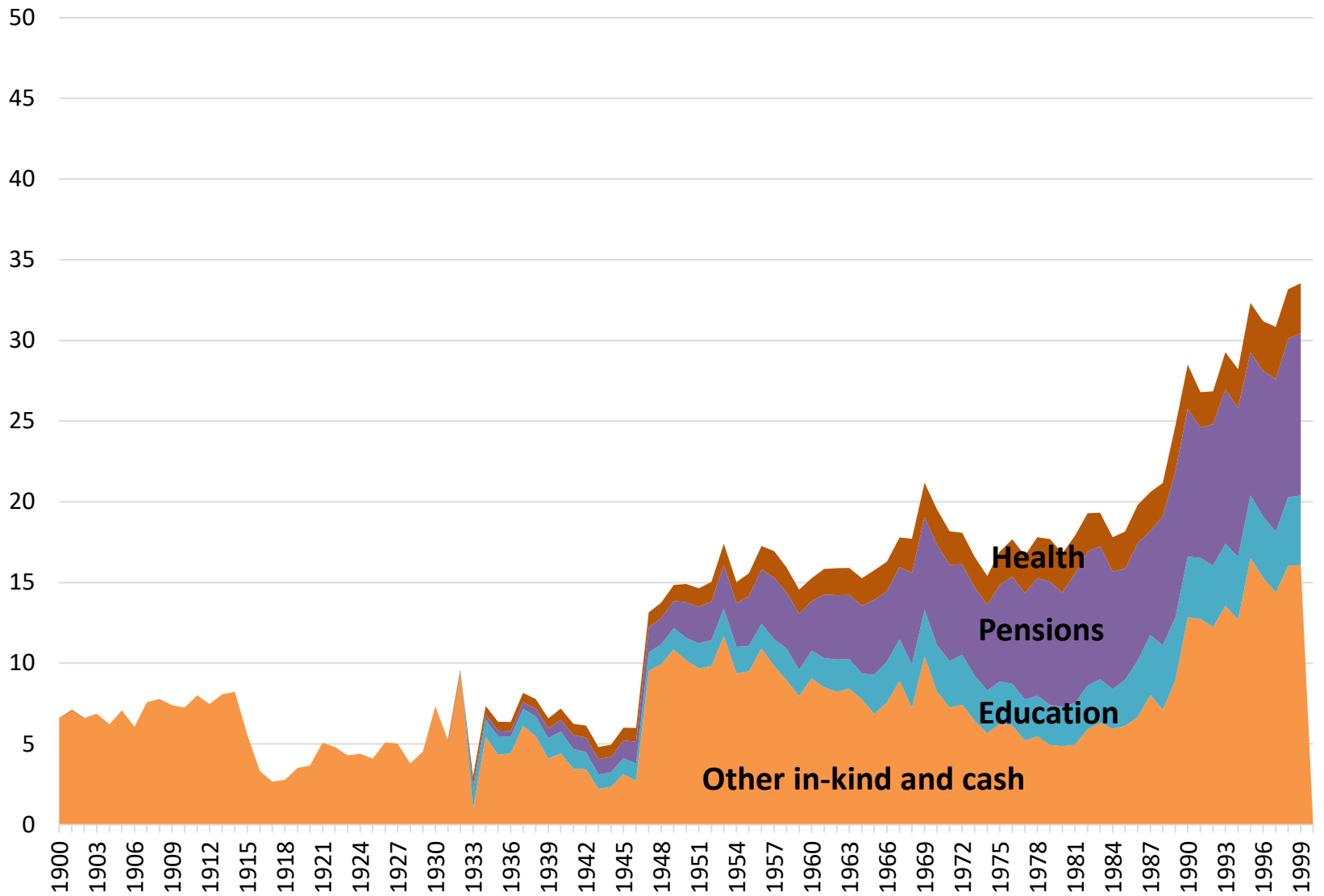
# Public Revenue as Percent of GDP, 1900 to 2000



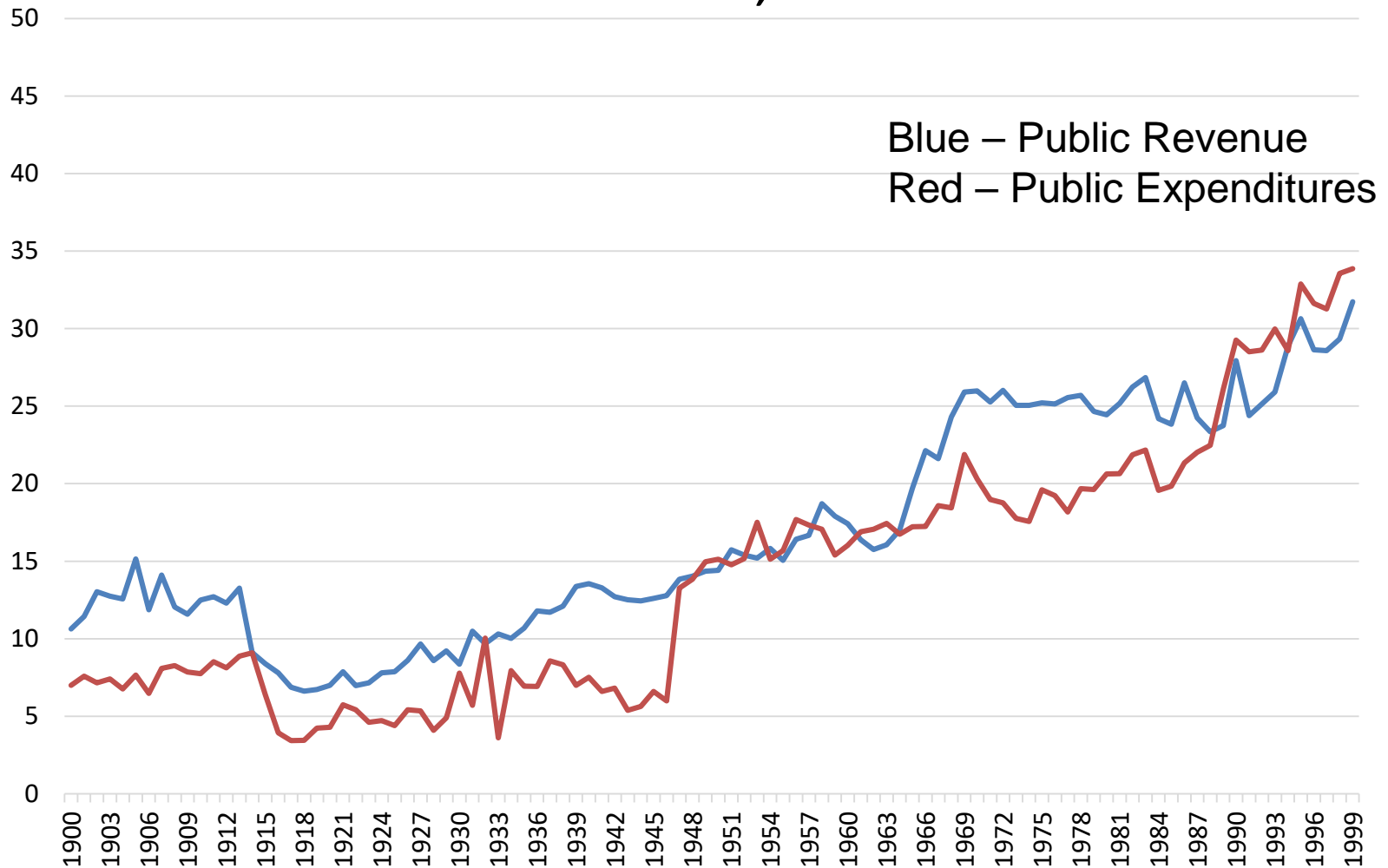
# Public Expenditures as Percent of GDP, 1900 to 2000



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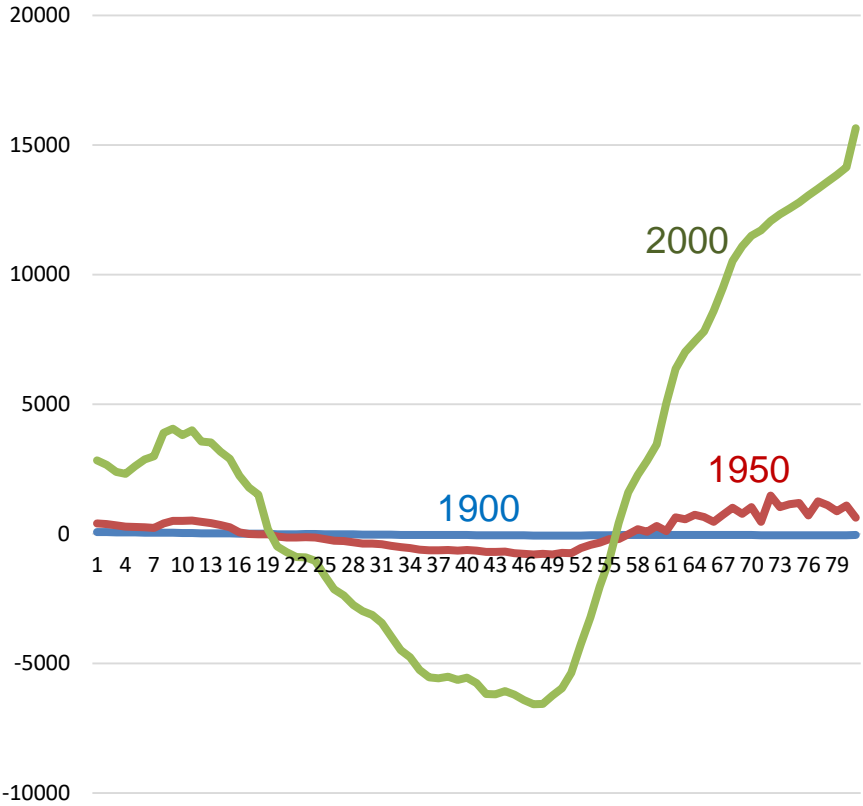


# Public Revenue (taxes) and Public Expenditures (consumption + cash + subsidies) as Percent of GDP, 1900 to 2000

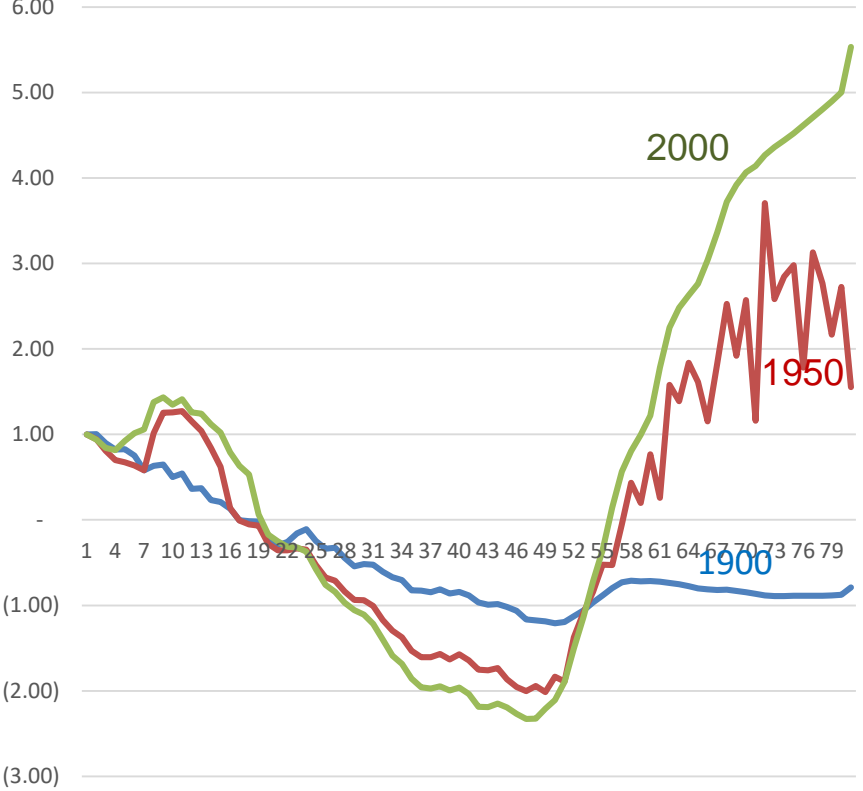


# Net Public Transfers (cash + in-kind) – (taxes) By Age, 1900, 1950 and 2000

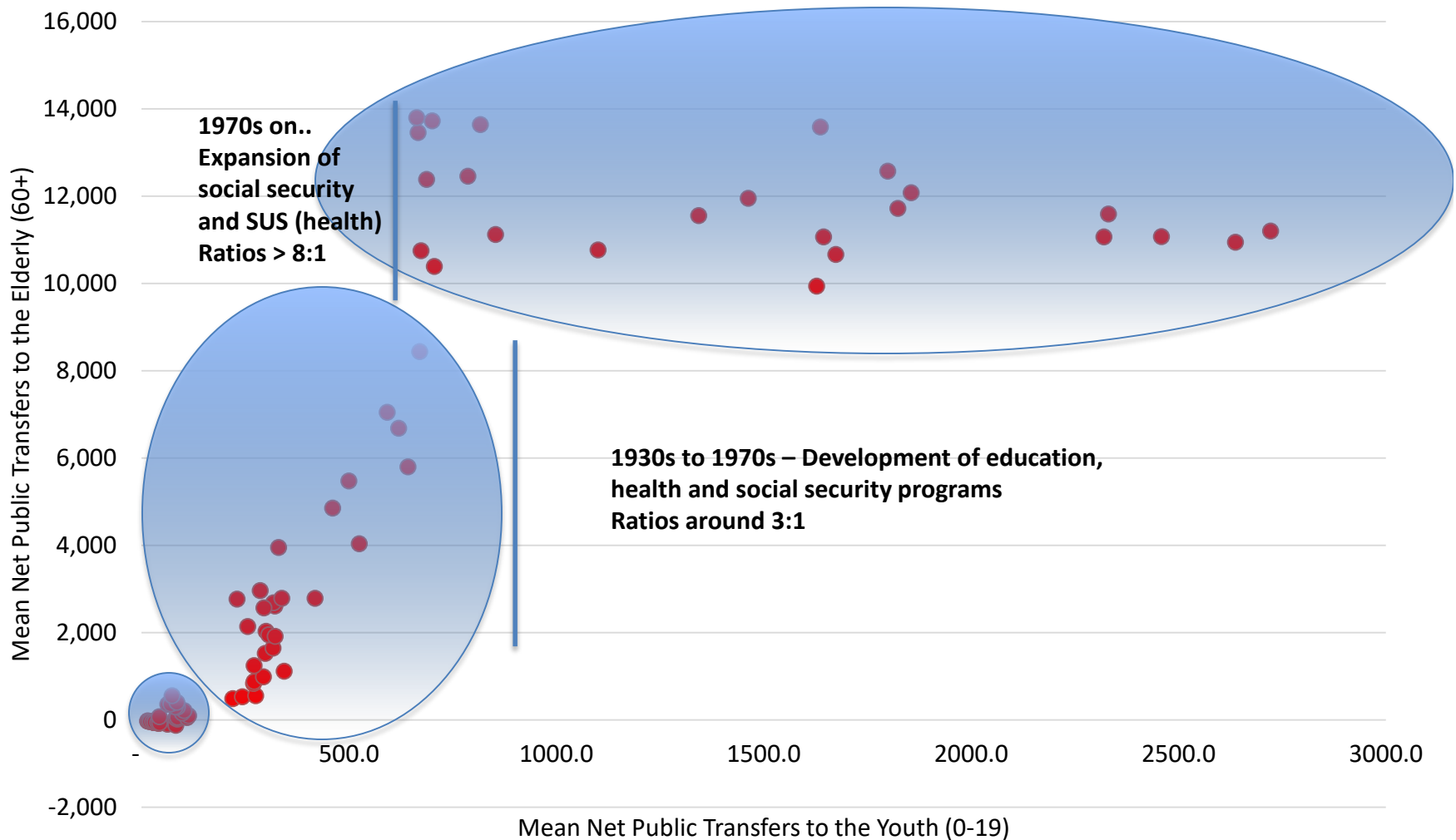
Reais 2013



Proportional



# Mean Net Public Transfers: (cash + in-kind) – (taxes) Elderly (60+) x Youth (0-19), 1900 to 2000, R\$2013

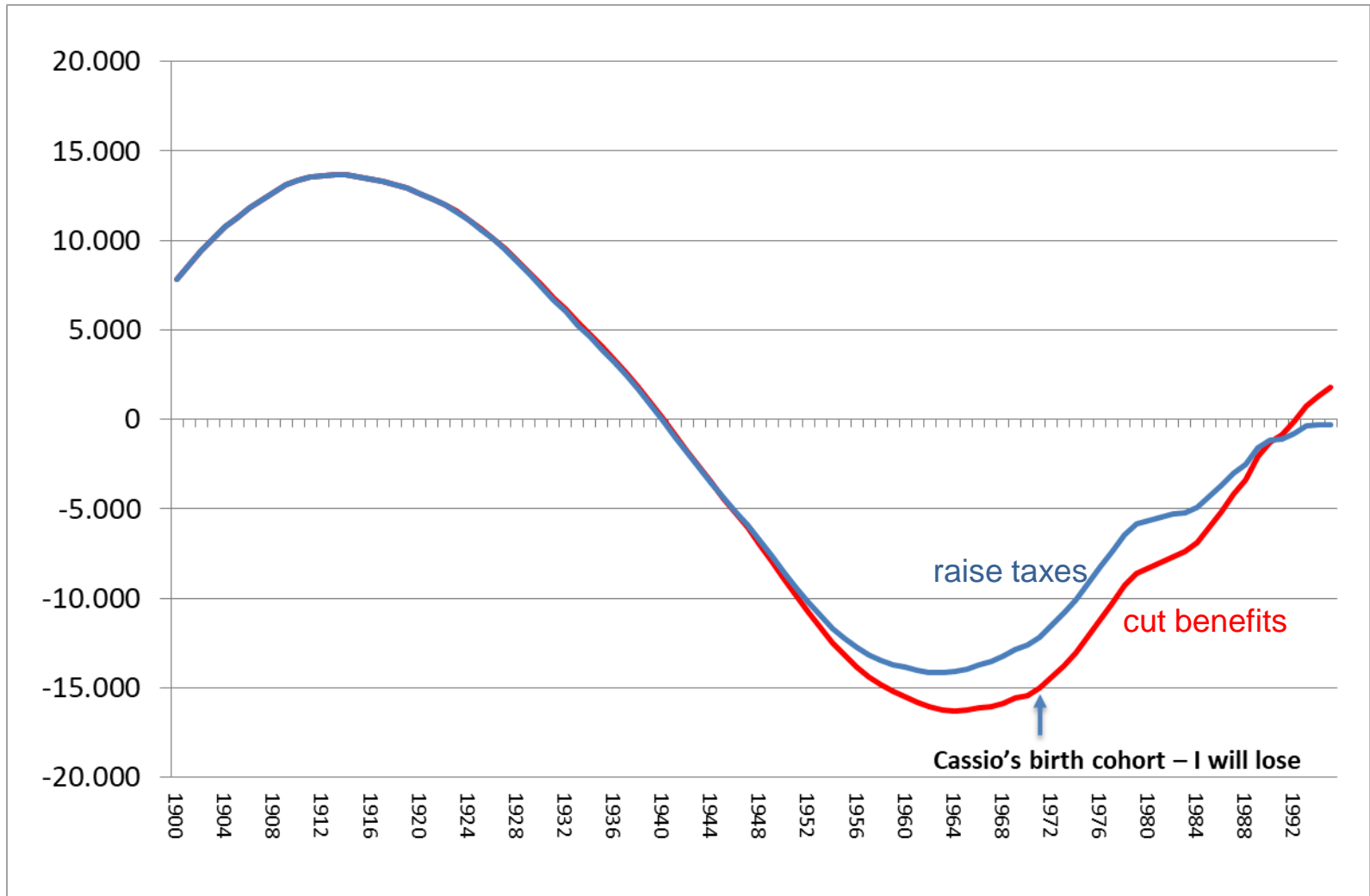


## Is There a Better Way to Summarize the Historical Expansion of Public Transfers?

1. Life cycle perspective: Are the current elderly better off than other generations?
2. We follow the steps of Bommier, Lee, Miller and Zuber (2004) and estimate the Net Present Value for net transfers of education and social security in Brazil
3. Results are preliminary and we still need to build alternative scenarios for the future

# Net Present Value of Public Transfers: Cohorts born from 1900 to 2000

Two Alternative Policies: Raise taxes x cut benefits; discount rate=3%; zero wages growth





# Discussion

- Brazil: Current generation of elderly (born until early 1940s) will have net financial gains in the public sector
- No evidence of the Becker and Murphy hypothesis in Brazil
- Preston's argument that current elderly benefit from larger transfers seems to apply to Brazil. It is not only a period effect
- Current generations of prime-age adults (born between 1945 and 1999) responsible for the expansion of education and expansion/generosity of social security. Brazil has a delayed pattern of NPV compared to the US (Boomier et al., 2004)
- NEXT STEP - Add other forms of public reallocations: fixed capital, interest payments, inflation, subsidies