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Democracy, Public Budget, and the “Sword of Damocles”



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The “Sword of Damocles” is one of the most famous expressions used to allude to the responsibility hovering over the shoulders of government authorities. It refers to an ancient Greek myth in which a courtier, having had the chance to sit on the throne for one day, regrets having envied the fortunes of this position once he saw the sword hovering above his head, suspended by a single horsehair.



Richard Westall's *Sword of Damocles* (1812).

By pushing away Damocles' desire to occupy the privileged position, this myth seems to also serve the interests of tyrants wanting to keep the exercise of power to themselves.

The contemporary concept of democracy is a far cry from the exercise of despotic power. In the Brazilian case, civil society organizations active in the democratic and grassroots camp have defended, in an articulated and explicit fashion, strengthening and enhancing the instruments of participatory and direct democracy that complement formal representative democracy.

Social participation in public policy decision-making spaces, such as councils and conferences, has been defended as an instrument of participatory democracy. In addition, an institutional design to promote communication and networking among those spaces has been put forward.¹

One approach is to increase social participation through the regulation of direct democracy instruments, such as plebiscites, referendums, and popular initiative laws.² This has entailed the articulation a broad range of civil society organizations, networks, and forums since 2005.³

¹ Councils are “political spaces established by representatives from government and non-government entities, in charge of elaborating, discussing, and overseeing policy implementation” (Moroni, J.A. and Ciconello, A. *Participação social no governo Lula. Avançamos?* In: ABONG in the 2005 conferences on Children and Adolescents – Social Assistance. São Paulo, 2005.)

² There is already a draft bill under discussion in Congress (PL 4718/2004), proposed by the Brazilian Bar Association (OAB) Federal Council and the National Bishops' Conference of Brazil (CNBB). It has broad support from organized civil society.

³ The concerted action “Mobilization for a broad, democratic, and participatory political reform” (www.participacaopopular.org.br and <http://www.ciranda.net/spip/rubrique33.html>) put forward a platform of proposals to reform the Brazilian political system.

The concept of democracy held by those sectors of society does not recognize the state as having exclusivity/monopoly to exercise political power; on the contrary, there is a clear understanding that social movements are legitimate political subjects:

Democracy is much more than the right to vote and be elected. It is necessary to democratize social life, relations between men and women, children and adults, youth and elderly people, in private and public spheres, and the power relations in the framework of civil society. (...)

(...) This means a reform to expand possibilities for political participation, capable of including and processing social change projects that sectors historically excluded from power spaces (such as women, Afrodescendants, homosexuals, native people, young people, people with disabilities, elderly people, and people deprived of rights in general) bring to public debate (in: *Platform of Social Movements to Reform the Brazilian Political System* – March 27, 2007).⁴

This does not mean arguing for a concept in which the role of the state would be replaced by society's political action. Strengthening representative democracy is also part of this struggle. Its aim is to make Congress and the Executive Power more committed to policies to defend rights and fight against inequalities. The same can be said of the Judiciary Branch, still viewed by the population as a distant Power.

The weighty capacity of the state to influence citizen's daily life is undeniable. This is one of the reasons for insisting that organized sectors of civil society – including the concerted actions in which INESC participates – exercise vigilance (social control) over the state. That is the only way to assure it will not turn into a contemporary Leviathan.⁵

Public budget as a tool to analyze public policies

In 2006, government research institutions, such as IPEA and BNDES, identified a decrease in the levels of inequality in Brazil reflected in household income – with special emphasis on gains resulting from increased work income (caused by minimum-wage adjustment policies) and targeted policies to transfer income to poor families.⁶ Despite the small improvement, the country remains one of the world's most unequal countries.⁷

⁴ Available at: <http://www.inesc.org.br/equipe/jairb/textos-para-reflexao-e-debate/plataforma-dos-movimentos-sociais-para-a-reforma-do-sistema-politico>. Accessed on August 10, 2007.

⁵ Social control understood as state monitoring by sectors of civil society active in the democratic camp, including social movements. The aim is to control government actions. The quality of social control presupposes transparency and access to public information. Social control has the objective of defending and implementing public policies that respect the concept of equality, universality, diversity, justice, and freedom.

⁶ Measured by the GINI index, the most used measurement for income inequality, the level of income concentration fell 4% between 2001 and 2004, from 0.593 to 0.569 [*Passim*: Institute for Economic and Applied Research (IPEA) – *Sobre a recente queda da desigualdade* (On the recent decline in inequality). Technical Note. August, 2006].

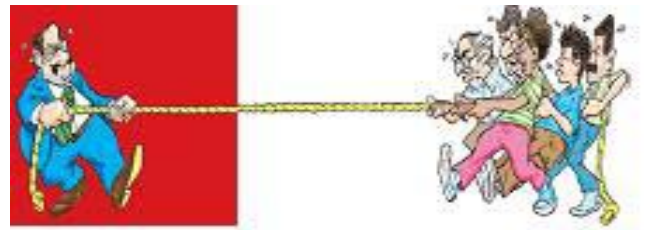
⁷ According to IPEA, the “share of the total income appropriated by the richest 1% of the population is of the same magnitude as the share appropriated by the poorest 50%. In addition, the richest 10% appropriate over 40% of the income, while the poorest 40% appropriate less than 10%” (*Passim*: Institute for Economic and Applied Research (IPEA) – *Sobre a recente queda da desigualdade*. Technical Note. August, 2006).

The UNDP Human Development Report, in its 2006 edition, ranks Brazil as the tenth⁸ most unequal country in the world. It is cited worldwide as a case example of this problem. However, the report does acknowledge improvement in the country, which the previous report in 2005 ranked as the second worst in terms of inequality.

To make this scenario worse, poverty in Brazil has color, sex, and an address. In Brazil racism, sexism, and territorial location structure inequalities. They render universal public policies incapable of universalizing rights.⁹

Participation in decision-making spaces (and state monitoring) presupposes knowledge about issues and demands the state is required to respond to. Moreover, it is necessary to know the impact of this action. Thus, it is necessary to know whether the state's response to demands is adequate, whether it is spending resources in an effective and efficacious way.

Given the large amount of collected, budgeted, and expended funds, the budgetary cycle is a special political process. This turns it into a strategic locus for social participation and public policy monitoring. After all, in order for the public budget to exist, society is affected twice: when taxes are collected and when public expenditures are made.



However, the public budget is far more than mere prediction of revenues and establishment of expenditures. The budget actually deals with the production/appropriation of the country's wealth.

Hence, different social forces, which may or may not be represented within the bureaucracy, dispute the shaping of the budget. The public budget is a space for struggle where different forces try to include their interests.



Since early 1992, INESC (Institute for Socioeconomic Studies) has used the issue of the public budget as a lens to analyze selected social policies.

In addition to producing content and doing advocacy work, INESC has taught several educational courses, sensitizing civil society leaders to using the public budget as an instrument for political intervention, and as a way of preparing social movements to improve their chances in the dispute for public funding.



⁸ Evaluation made by the 2006 HDR based on the GINI index.

⁹ INESC – 2008-2010 Three-year Plan – draft.

Federal government in figures

In the second half of 2007, until August 15, the federal government executed (liquidated) 51.6% of the amount authorized by the 2007 Budgetary Law. This is equivalent to R\$ 458 billion (about US\$ 229 billion). Table 1 organizes federal government expenditures in large categories, in accordance with our law of public finances.¹⁰

Table 1 – Federal government budget execution of the 2007 Budgetary Law according to Groups by Nature of Expenditure (GND) – except public debt refinancing. Up to August 15 (in R\$ billion).

In this period, executed (liquidated) federal government investment reached R\$ 2.3

GND	Authorized	Liquidated	% executed
Personnel and payroll charges	128.1	71.0	55.4%
Debt interests and charges	165.9	103.7	62.5%
Other current expenditures	417.6	220.2	52.7%
Investments	34.9	2.3	6.6%
Financial investments	38.0	16.0	42.1%
Debt amortization	77.9	44.8	57.5%
Contingency reserve	25.2	0.0	0.0%
Total	887.7	458.0	51.6%

Source: Senate/ Siga Brasil
Elaboration: INESC

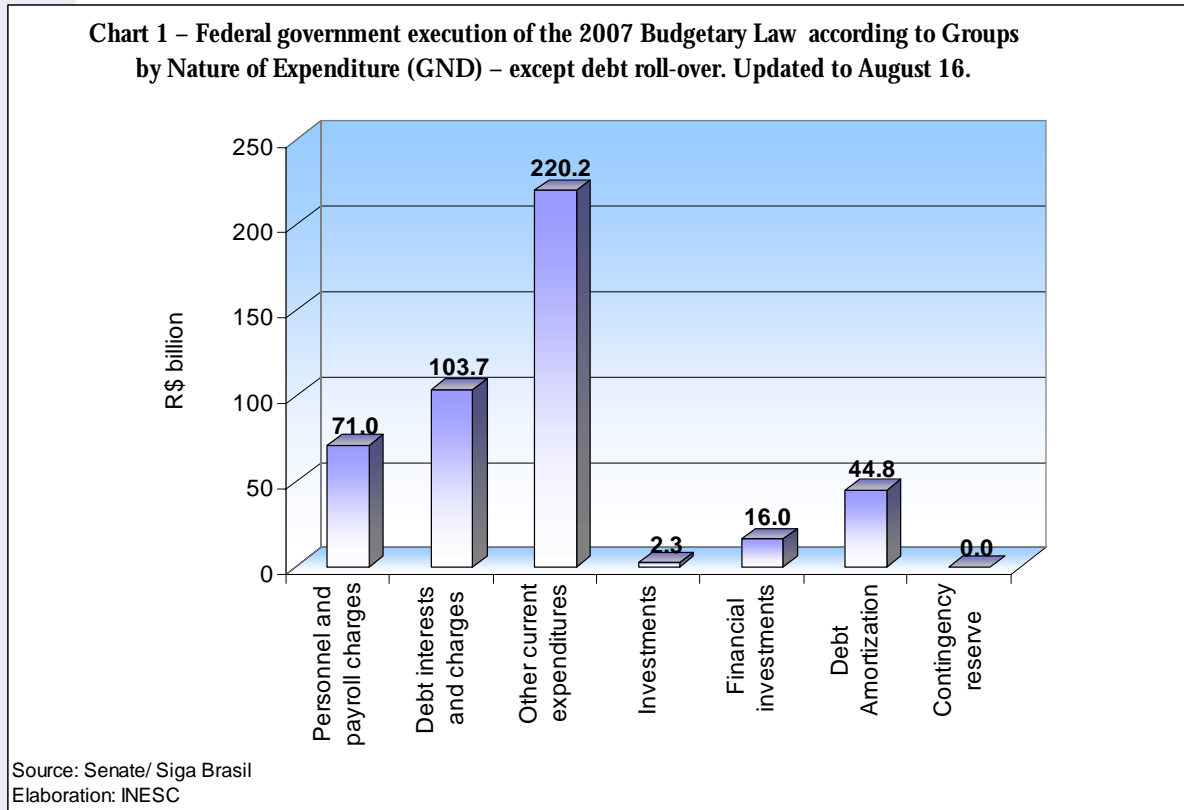
billion or 6.6 % of the amount authorized in the Budgetary Law (in May, it was 1.32%). In a country such as Brazil, with widespread social problems and employment shortages, this is considered a very low level of government investment, particularly if compared to the expenditure under “debt interest and charges.” In this category, 103.7 billion *reals* were spent. If one also takes into account the amount spent in public debt amortization (R\$ 44.8 billion), it seems clear that the state is trapped in a logic that mostly harms people who do not receive the benefits of social policies, a logic that favors the financial sector, large banks, and families who hold public debt bonds.

This analysis is not new, but the figures are always astonishing. Perception of state inefficiency and private appropriation of the country’s wealth increases, especially because very few Brazilian families have financial investments that would enable them to benefit from this financial circuit. Private appropriation by major foreign investors, given the increasing deregulation of capital flows in Brazil, strengthens that perception. In 2003, almost 10% of the Gross Domestic Product was transferred to the financial market as debt interest payments. About 20,000 families control this market,¹¹ while the Brazilian population is around 190 million people. Chart 1 helps to visualize the disproportion between public investment and expenditures on the public debt (debt interests and

¹⁰ Law 4320 of 1964.

¹¹ POCHMANN, Marcio. *Proteção social na periferia do capitalismo: considerações sobre o Brasil*. São Paulo Perspectiva. São Paulo, v. 18, n. 2, 2004. Available at: <http://www.scielo.br/scielo.php?script=sci_arttext&pid=S0102-88392004000200002&lng=en&nrm=iso>. Accessed on August 17, 2007.

charges, and debt amortization).



In Chart 1, the largest column (R\$ 220.2 billion) corresponds to the group “other current expenditures” and is related to federal government expenditures to maintain the public apparatus itself. However, it also includes social security spending, considered by many as the largest social program in Brazil. It is worth recalling that as far as the amount of allocated funds is concerned, social security is second only to expenditures on the public debt.

These aggregated data can be viewed from another perspective, that is, by function, or by large areas of expenditures, such as education, health, public security, and also debt charges. Federal government expenditures organized by function can be seen in Table 2.

Table 2 - Federal government budget execution of the 2007 Budgetary Law according to function (except public debt refinancing). Up to August 15 (in R\$ billion)

Function	Authorized	Liquidated	% of Execution
01 - LEGISLATIVE	5.31	2.52	47.5%
02 - JUDICIARY	16.33	8.26	50.6%
03 - ESSENTIAL TO JUSTICE	3.70	1.87	50.5%
04 - ADMINISTRATION	15.09	6.27	41.5%
05 - NATIONAL DEFENSE	18.69	8.34	44.6%
06 - PUBLIC SECURITY	5.46	2.40	43.9%
07 - FOREIGN RELATIONS	1.81	0.80	44.4%
08 - SOCIAL ASSISTANCE	24.51	13.52	55.2%
09 - SOCIAL SECURITY	233.21	126.05	54.1%
10 - HEALTH	46.53	22.77	48.9%
11 - LABOR	17.47	11.10	63.5%
12 - EDUCATION	23.03	10.05	43.6%
13 - CULTURE	0.83	0.19	22.6%
14 - CITIZENS' RIGHTS	1.00	0.25	25.3%
15 - URBANISM	4.13	0.33	7.9%
16 - HOUSING	1.16	0.00	0.0%
17 - SANITATION	1.04	0.01	0.7%
18 - ENVIRONMENTAL MANAGEMENT	3.13	0.51	16.3%
19 - SCIENCE AND TECHNOLOGY	4.50	1.48	32.8%
20 - AGRICULTURE	15.35	3.91	25.5%
21 - AGRARIAN ORGANIZATION	4.23	0.95	22.5%
22 - INDUSTRY	2.15	0.52	24.3%
23 - COMMERCE AND SERVICES	4.15	0.64	15.5%
24 - COMMUNICATIONS	0.78	0.20	25.2%
25 - ENERGY	0.74	0.19	25.0%
26 - TRANSPORTATION	12.87	1.85	14.4%
27 - SPORTS AND LEISURE	1.43	0.59	41.5%
28 - SPECIAL CHARGES	394.32	232.45	59.0%
98 - NOT-IDENTIFIED	0.00	0.00	0.0%
99 - CONTINGENCY RESERVE	24.73	0.00	0.0%
TOTAL	887.66	458.02	51.60%

Source: Senate/Siga Brasil

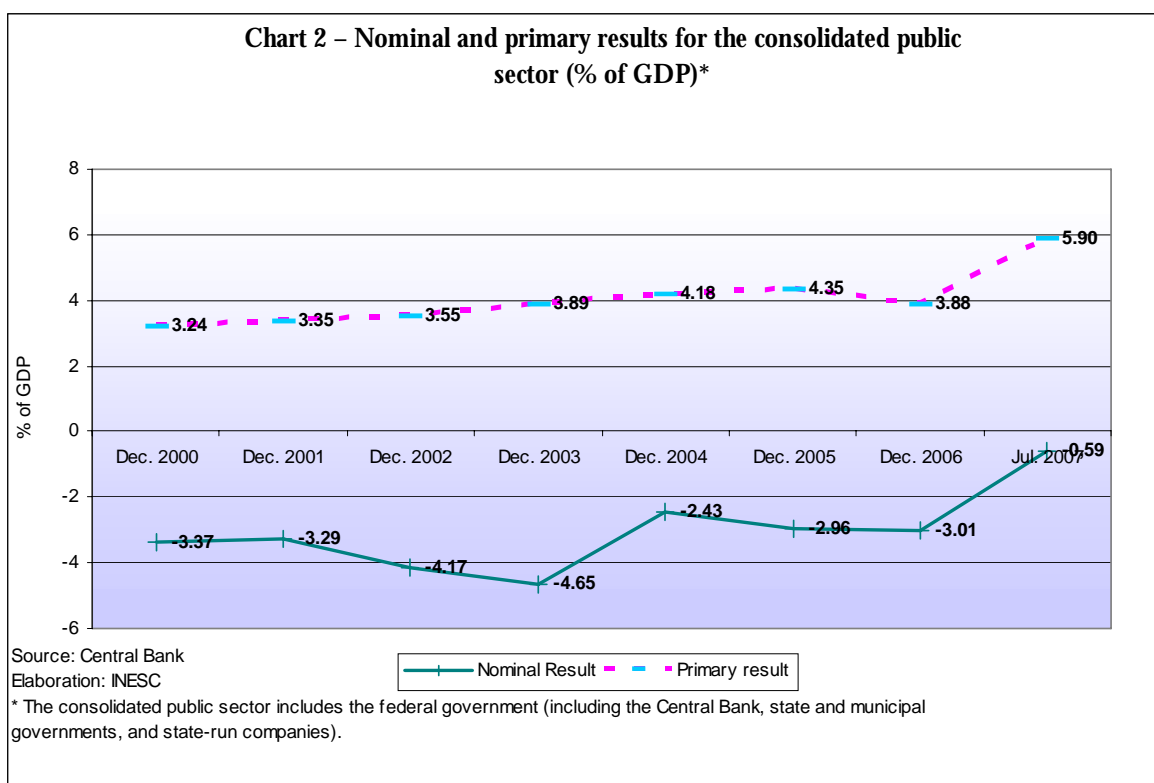
Elaboration: Inesc

In this perspective, it is possible to see that the public debt, here represented by the function “special charges,” is the single largest expenditure: R\$ 232.45 billion!

To a large extent, the explanation for the fact that state investment has not taken off is the exaggerated “savings” the federal government has been accumulating to pay off the public debt. This funding “misallocation” is measured by the so-called primary surplus, whose 2007 target established in law was 3.8% of the GDP. However, quite often the

government goes beyond the target. The country's federal and state governments had obtained a joint primary surplus of 5.9% of the GDP by the month of June. In other words, the country had refrained from spending R\$ 71.6 billion in that period. According to the government, the objective of this surplus is to diminish Brazil's indebtedness.

Another important fact: the country as a whole has a public debt of 0.59% of the GDP – the difference between total revenues and total expenditures, including expenditures with debt interests and adjustments for inflation. This measurement reveals the debt interest burden on the country. After all, when one adds the expenditure with debt interests in this accounting, the country has no longer a surplus, but a deficit. This information is laid out in Chart 2.



Total public sector public debt only increases. The federal government argues that the extent of indebtedness, relative to the GDP, would be controlled. The country's net debt represented 52.3% of the GDP in 2003. It is now (2007) 44.2% of the GDP. However, it is also true that nominal public debt already amounted to R\$ 1.09 trillion in June 2007, up from R\$ 913.2 billion in 2003. However, the government does not tout this information. The consequence is a persistent high level of indebtedness, resulting in extortionate interests paid to the financial sector.¹²

¹² In addition to the fact that most Brazilian bonds were tied to exchange-rate variation when the *real* went through a large devaluation in late 1998, as well as in 2002, it is worth recalling that a large part of the country's recent indebtedness results from a monetary policy grounded in high interest rates (SELIC rate). A significant percentage of public debt bonds were also tied to the exchange-rate variation when this instrument was misused under the pretext of fighting inflation. For most of its recent economic history, Brazil has had the dubious honor of having the world's highest basic interest rate!

That is why is not sufficient to decrease interest rates (the world's second highest) that remunerate a large share of Brazilian public bonds; nor is it sufficient to reduce the primary surplus – it is also indispensable to have control over debt management.

Hence, during the Congress discussion of the “2008 Budget Guidelines Law” in July, INESC suggested an amendment that requires the Federal Accounts Tribunal (TCU), an organ that assists the Legislative, to present an evaluation report on debt management as an input to the discussion of the Budgetary Law, which is sent to Congress by the Executive every year. The suggestion was incorporated in the draft bill, and this was a victory. However, the impact of this measure still needs to be monitored.¹³

Moving the magnifying glass closer to public spending

More detailed analysis makes clear the extent to which contractive fiscal policy, already in place for almost a decade, harms social policy. The issue of human rights provides a good example.

The creation of the Special Secretariat for Human Rights (SEDH) raised hopes that **human rights** would be a priority in the Lula administration. In 2003 this policy area acquired ministerial status when it was overhauled and integrated into the Presidency. However, no one expected that the human rights issue would be left out when the programs of the Multiannual Plan – medium-term planning carried out every four years – were put together. On the contrary, the expectation was that human rights would be a cross-cutting policy present in every governmental organ or program.

It was really discouraging to see this cross-cutting policy reduced to a mere “strategic orientation” and sidelined when it came to set up programs and sectorial organs, as well as in SEDH’s budget execution in the 2007 Budgetary Law. This can be seen in Table 3.

¹³ Law N. 11514, of Aug.13, 2007. Available at: www.planalto.gov.br/ccivil_03/ Ato2007-2010/2007/Lei/L11514.htm

Table 3 – SEDH budget execution of the 2007 Budgetary Law. Up to August 15.

Budgetary unit	Program	Authorized	Liquidated	% executed
SPECIAL SECRETARIAT FOR HUMAN RIGHTS	0068 – ERADICATION OF CHILD LABOR	60,000.0	0.0	0.0%
	0073 – FIGHT AGAINST SEXUAL ABUSE AND EXPLOITATION OF CHILDREN AND ADOLESCENTS	5,740,000.0	0.0	0.0%
	0107 – ERADICATION OF SLAVE LABOR	430,000.0	752.5	0.2%
	0152 – SOCIO-EDUCATIONAL CARE OF ADOLESCENTS IN CONFLICT WITH THE LAW	7,534,000.0	327,400.2	4.3%
	0153 – PROMOTION AND DEFENSE OF CHILDREN AND ADOLESCENTS' RIGHTS	8,122,500.0	1,871,053.4	23.0%
	0154 – HUMAN RIGHTS, EVERYBODY'S RIGHTS	26,265,994.0	1,809,770.2	6.9%
	0155 – MANAGEMENT OF THE HUMAN RIGHTS POLICY	2,022,518.0	298,067.2	14.7%
	0670 – ASSISTANCE TO VICTIMS AND THREATENED WITNESSES	15,572,000.0	4,019,248.2	25.8%
	0750 – ADMINISTRATIVE SUPPORT	12,949,196.0	4,684,984.3	36.2%
	1078 – NATIONAL ACCESSIBILITY PROGRAM	1,730,000.0	67,871.5	3.9%
	1086 – PROMOTION AND DEFENSE OF PEOPLE WITH DISABILITIES	7,820,000.0	519,454.2	6.6%
	1365 – SPECIAL SOCIAL PROTECTION	9,250,000.0	18,000.0	0.2%
	8017 – PROTECTION OF ADOPTION AND FIGHT AGAINST INTERNATIONAL KIDNAPPING	200,000.0	0.0	0.0%
Total		97,696,208	13,616,601.7	13.9%

Source: Senate/Siga Brasil
 Elaboration: Inesc

By August 15, the federal government had executed (liquidated) only 13.9% (R\$ 13.6 million) of the authorized amount for this budgetary unit (R\$ 97.7 million). Under the responsibility of this Secretariat, the “Eradication of Slave Labor” program had liquidated only 0.2% (R\$ 752,0), and the “Eradication of Child Labor” program had 0.0% execution. The “Fight Against Sexual Abuse and Exploitation of Children and Adolescents” program also shows 0.0% execution for the authorized amount under the responsibility of SEDH.

One of SEDH’s main programs, “Human Rights, Everybody’s Rights,” shows that little was executed, having liquidated just 6.9% of available funds (equivalent to R\$ 1.8 million). The “Socio-educational Care of Adolescents in Conflict with the Law” program has executed 4.3% (R\$ 327,400). The “Promotion and Defense of Children and Adolescents’ Rights” program reached 23.0% (R\$ 1.8 million) of execution. In all these cases, the amounts are too low for this time of the year. It is true that the largest volume of budgetary execution for these programs is under the responsibility of other ministries. However, the low level of execution remains an indicator of SEDH’s lack of prestige and importance in the Lula administration.

Two other strategic secretariats related to human rights issues, and both linked to the structure of the Presidency, have also shown a disappointing level of budgetary execution, when examined with reference to the same period. One of them, the Special Secretariat for Women's Policies (SPM) registered an execution of 12.1% (R\$ 5.8 million) of the legally authorized ceiling (R\$ 48.4 million).

Table 4 – SPM budgetary execution of the 2007 Budgetary Law. Until August 15.

Budgetary unit	Program	Authorized	Liquidated	% executed
SPECIAL SECRETARIAT FOR WOMEN'S POLICIES	0156 – FIGHTING VIOLENCE AGAINST WOMEN	22,309,007.0	1,075,338.5	4.8%
	0750 – ADMINISTRATIVE SUPPORT	5,579,761.0	2,662,420.3	47.7%
	1068 – MANAGEMENT OF GENDER POLICY	8,813,170.0	1,587,614.5	18.0%
	1087 – GENDER EQUALITY IN LABOR RELATIONS	11,728,000.0	524,208.3	4.5%
Total		48,429,938.0	5,849,581.5	12.1%

Elaboration: Inesc

Government disregard for this Secretariat is reflected in program execution: only 4.8% (R\$ 1.07 million) was executed in the “Fighting Violence Against Women” program, whose responsibility falls almost entirely to the Special Secretariat for Women's Policies (SPM). Moreover, this low level of program execution shows that passing the Maria da Penha Law, on August 7, 2006 – one of the main victories in the area of women's rights in Brazil – had no political impact on the government. The objective of this law was to increase penalties in cases of violence against women. Budget execution in the Special Secretariat of Policies for Promoting Racial Equality (SEPPIR) program reached a scant 15.0% (R\$ 5.1 million) of the total authorized for the whole year (R\$ 34.05 million).

Table 5 – SEPPIR budgetary execution of the 2007 Budgetary Law. Until August 15.

Budgetary unit	Program	Authorized	Liquidated	% executed
SPECIAL SECRETARIAT OF POLICIES FOR PROMOTING RACIAL EQUALITY	0089 – SOCIAL SECURITY FOR INACTIVE AND RETIRED FEDERAL CIVIL SERVANTS	1.000,0	0,0	0,0%
	1152 – MANAGING THE POLICY FOR PROMOTING RACIAL EQUALITY	20.052.726,0	3.972.209,3	19,8%
	1336 – “BRASIL QUILOMBOLA”	13.999.000,0	1.142.090,2	8,2%
Total		34.052.726,0	5.114.299,5	15,0%

The “Managing the Policy for Promoting Racial Equality” program had only 19.8% (R\$ 3.9 million) executed, although it encompasses important budgetary actions coordinated by SEPPIR.

Although these three Secretariats have no monopoly over human rights policy implementation, the low level of budgetary execution shown after more than seven months of the year only demonstrates the lack of priority for executing the already small budget allocated to them.

Overcoming the present situation

The mission of diverse social organizations active in the democratic and popular camp should urgently set them on the road to radicalness in defending human rights, equity among people, and democracy.

Among numerous other challenges, progressive organizations have to deal with the fact that groups and political parties that used to be partners, fighting side by side with social movements in various political struggles in the recent past, are now in positions of power. For many analysts this “proximity” to power has hampered part of the movement from moving ahead at full throttle with their mission.

However, it is exactly this conjuncture that requires a reflection by these progressive sectors of society. What strategy should be adopted if, in four years’ time, the diagnosis will inexorably be “high primary surplus in detriment to social spending, little transparency and clarity in the budgetary process, and a low level of democratization of decision-making spaces related to the budget” – as it is in the current situation laid out here?

In other words, a clear future of wealth concentration, linked to the worst indexes of inequality and social injustices, should lead to a sharper posture regarding political agents and institutions.¹⁴ If the future is to be as conservative as the present, the only option left is more critical, forceful, and independent action vis-à-vis the formal power. INESC wishes to carry on and to move forward with this political approach

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¹⁴ Legal and informal arrangements that organize power relations between social actors and decisively contribute to the Brazilian people’s dissatisfaction.

¹⁵ The author thanks Eliana Magalhães Graça for her comments and copydesk

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