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Development and Redistribution: The Case of the Bolsa Familia Program in Brazil

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Abstract

The crucial issue of promoting development along with reduction of poverty and inequality is on the agenda of many countries today. Recent Latin American social policy experiments have reinforced the association of social policies with development policies. The Brazilian conditional cash transfer program, *Bolsa Família*, is one such experiment. Although on many counts its implementation can be considered very successful, it has also revealed the fragile political economy of programs targeted at the poor and with conditions attached in countries with high levels of inequality. In this article, we bring preliminary evidence of this fragility from recent public discussion on the program and its funding scheme. We also suggest some alternative ways to strengthen the support for the program and highlight its development aspect. In particular, we propose that public intervention should frame the program as a capability-enhancing one, intensify provision of good-quality universal opportunities (with a priority rule), and place much greater emphasis on early childhood education initiatives. Paradoxically, a more costly (but also more effective) program may more easily win support.

Key-words: conditional cash transfers; Bolsa Família, development; social policy; redistribution.

JEL code: I38

1. Introduction¹

Nowadays, developing countries are struggling to find strategies that square poverty and inequality reduction with development. Social policies may be part of development packages with this sort of commitment. Among these policies are the income guarantee schemes implemented in recent years in Latin American and African countries.

The novelty of these recent experiences is the mix of targeting and children's education conditions in the redistribution. Income is transferred to poor families on the condition that their children attend school regularly so that families' poverty is relieved and children's future capabilities are enhanced.

Actually, development in connection with poverty and inequality reduction seems also to have been a concern of developed countries. Many of these countries have had guaranteed income schemes for a long time. Some of them are now considering importing (or have actually imported) social technology from the recent Latin American redistribution experience.²

To the extent that development is not only a matter of economic aggregates and average income distribution, but also of the ways economic results spread in a particular society and generate capabilities, insufficient development remains a concern for virtually every contemporary society.

What can be learned from Brazil's recent experience with income redistribution?

Brazil is a big country, often referred to somewhat paradoxically as the "nation of the future". The moniker is hardly a compliment, as the "future" always seems to get farther ahead as the country heads for it. Six decades after Stefan Zweig made the prophetic remark, Brazil is now among the ten largest world economies with relatively

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² Adaptations of conditional cash transfer programs are in place in 20 countries. New York City has announced the adoption of a variation of the programs developed in Brazil and Mexico, the "Opportunity NYC". See World Bank 2008.

high HDI and life expectancy figures, but these achievements are poorly distributed among the population. Income inequality is high, poverty is glaring, especially among children, and average schooling and school performance are low and highly disparate.

Table 1: Brazil and the future: mixed signals

GDP	Among the ten largest economies ³
HDI	.80 – (high human development)
Life expectancy at birth	71.9 years
Gini	.56 ⁴
Poverty incidence	27% ⁵
Child poverty	45% ⁶
Average schooling	7 years ⁷
Ranking PISA 2006	52/57 ⁸

In 2003, the administration of President Luiz Ignácio Lula da Silva (universally addressed as President Lula) implemented a major nationwide program of income transfer to the poor, the *Bolsa Família* (“Family Stipend”) program. In terms of scale, this was the first such program the country had ever had. Actually, during the Cardoso administration (1994-2002), the country experienced varied smaller scale cash transfer programs, including conditional ones, targeted at the poor, which were administered by different ministries. The first experience of a conditional cash transfer program was undertaken at the municipal level as early as 1997, in the city of Campinas, soon to be followed by the Federal District (Brasilia). Then, during Lula’s government, the federal cash transfer programs were consolidated, expanded, and repackaged as a targeted and conditional cash transfer program to poor families with children under the age of 15, the *Bolsa Família*.

At its inception, the *Bolsa Família* program announced two explicit objectives: to reduce poverty and to interrupt the intergenerational cycle of poverty. While the first objective is to be attained mainly by the cash transfers, the second is to be achieved via the conditions the program imposes on recipients. These are basically of two kinds:

³ 2005 data. See UNDP 2007 for GDP, HDI and life expectancy at birth.

⁴ IPEA 2007 on 2006 data.

⁵ IETS 2008, on 2006 data. Note that the country does not have an official poverty line, so the per capita income threshold considered in the IETS tabulation is one half of the current minimum monthly wage.

⁶ IBGE 2006.

⁷ IBGE 2006.

⁸ OECD 2006.

children’s school attendance and participation in nutrition orientation and preventive health assistance programs for pregnant women and infants. So the program differs from traditional minimum income programs in terms of the mix of policies involved: income and opportunity policies focused on children.

Table 2: Bolsa Familia – “the basics”

Objectives	Poverty reduction, Interruption of the poverty cycle	
Eligibility	Families with monthly per capita income below US\$ 30.00*	Families with monthly per capita income between US\$ 30.01* – US\$ 60.00, with children under the age of 15.
Benefits	Fixed = US\$ 29.00*	
	Variable = US\$9.00* per child up to 3 years old.	Variable = US\$ 9.00* per child up to 3 years old.
Conditions	Education	School attendance of at least 85%.
	Health	Participation in nutritional and health orientation for pregnant women and infants, compliance with children’s vaccination schedule.
Number of recipient families	11.1 million	
Number of people	45.6 million	
2007 budget	US\$ 4.5 billion*	

*The exchange rate used is US\$ 1.00 = R\$ 2.00.

In this article, I examine, on the basis of existing evidence, the program’s performance, especially its potential to fulfill its double purpose in a sustained manner. This is thus an effort of gathering and analyzing existing information, and thus also raising questions not yet ventilated in the published debate on Bolsa Familia. The questions I pose stem mainly from the political economy of the program and were

brought to my attention by recent facts pertaining to the country's recent political chronicle.

In spite of the program's having strong support from the population, recently a proposed expansion has come under heavy fire in the media and the Senate. More importantly, at the end of 2007, a compulsory contribution⁹ that had been part of its financing scheme was overturned by the Senate without a "B Plan" being offered. Why did this happen? In what ways do these new facts interact with the program? Are the program's institutional features affecting its political economy? Could it be otherwise? These are the sorts of questions I ask here. In the conclusions, I conjecture that a redistributive policy that is also a development policy seems more likely not only to be effective but also to be regarded as legitimate (and, on this count, also to be more effective).

Because the Bolsa Familia is the biggest cash transfer program of its kind implemented in the world and is now for many considered a social policy paradigm,¹⁰ an assessment of its likely successes and limitations from the political economy point of view may be instructive.

In the next section, I briefly comment on the celebrated impact the program has had on the reduction of income inequality and extreme poverty in Brazil. Section 3 discusses opportunities and challenges to the program's sustainability - as well as the continuation of its impact on inequality - as they have appeared in recent public debate on the financing of social policies in Brazil. Section 4 looks into some of the institutional driving forces that imperil the program, while Section 5 examines opportunities to strengthen the program's support. In Section 6, I formulate a basis for reinforcing the long-term development aspect of the program, suggesting that early childhood education initiatives should have much greater emphasis than they presently have.

⁹ The Brazilian tax system, provided in the Federal Constitution of 1988, establishes two types of levies: *impostos*, or taxes per se, and *contribuições*, or contributions. Tax revenue goes into the general fund and is subject to mandatory revenue sharing with the states and municipalities and minimum spending percentages on health, education and other categories. That from contributions is earmarked (often rather loosely) for certain uses defined in the law creating the particular contribution. Hence, contributions, although earmarked, give the government more discretionary spending freedom.

¹⁰ Among those who strongly support the program and consider that it should be exported to other less developed countries is the World Bank.

2. The Bolsa Familia program and the recent reduction of inequality

After stagnating for decades with a Gini of around 0.60, income inequality in Brazil has finally been dropping over the last six years (2001-2006), reaching the 2006 mark of 0.56 – a negative variation of about 6%.

There has been some debate on the importance of this figure, but it seems that the speed of the change is not negligible, at least if we compare Brazil's performance with that of OECD countries at the time when they were consolidating their welfare states, with the remarkable exception of Spain (Soares 2007). The figure is certainly impressive if we compare Brazil with Brazil.

Two important reasons for the fall of inequality seem to have been the performance of labor earnings, especially on account of the minimum wage¹¹ (MW) readjustment policy, and social programs, especially Bolsa Familia (Saboia 2007, Soares 2006, Hoffmann 2005). The policy of increasing the MW in real terms (above inflation) - which has been undertaken since the Cardoso administration and has continued, and even accelerated, during the Lula administration - has had an important impact on the reduction of wage and pension inequality, and it is perhaps the principal determinant of the recent fall in total income inequality, given that wages and pensions represent a major proportion of household income (Saboia 2007).

However, if we consider that government transfers represent only a tiny fraction of household income in Brazil, the Bolsa Familia program is relatively a more important factor than the changes in earnings and pensions: its impact on inequality diminution is estimated at about 21%, while the fraction of household income which it represents is only 0.5% (Soares et al., 2006). The significant effect on inequality is certainly due to the fact that a sizable number of people at the very low end of the income distribution scale are now receiving the monetary benefits.

As for poverty reduction, the immediate effect on a headcount poverty measure may be unimportant, at least if we consider the poverty threshold adopted in the program.¹² This has to do with the eligibility rules and the size of the benefits.

¹¹ Brazil does not have a minimum hourly wage, but instead a *salário mínimo*, or minimum monthly salary that all regularly employed workers must receive regardless of the number of hours worked.

¹² Again, Brazil does not have an official poverty line. In the case of the BF program, initially the reference poverty line was to the official minimum wage. When the BF program was launched, those considered poor lived in families whose per capita income was smaller than one-half the MW, whereas those considered to be very poor lived in families whose per capita income was smaller than one-quarter

Typically, eligible families classified as “very poor” and “poor” receive income transfers in proportion to the severity of poverty and the number of children in the family, but the transfers are not enough to move people beyond the program’s poverty line. It has however represented an important relief mechanism for *very poor* families and it may have significant effects on child malnutrition (Soares et al., 2007).¹³ Indeed, it has been estimated that around 87% of the transfers have been used by recipient families to buy food. (Duarte et al., 2007)

Table 3: Bolsa Familia: contribution to inequality and poverty reduction, and baseline impact evaluation - 2005

Fall in inequality (2001-2006)	21%
Fall in poverty (poverty gap measure)	12%*
Fall in poverty (poverty severity measure)	19%*
Expenditures on food, education, child clothing of beneficiary families (OBF)	Increased**
Expenditures on adult health and clothing (OBF)	Decreased**
School attendance (OBF)	Positive impact on absence and dropout**
Grade promotion in school (OBF)	Slower **
Child immunization (OBF)	No significant impact**
Chronic infant malnutrition (height for age) (OBF)	Decreased only among 6 to 11 month-olds**
Acute infant malnutrition (weight for height and age) (OBF)	Decreased only among children up to 5 months old**
Adult labor force participation (OBF)	Increased***

*Zepeda, Eduardo 2006, Background research for ‘Do CCT’s reduce poverty?’. One pager # 21, September, International Poverty Center.

** The figures come from a preliminary, baseline impact evaluation, undertaken by CEDEPLAR/UFMG in 2005 and sponsored by the Ministry of Social Development, the “Avaliação de Impacto do Bolsa Família” (AIBF 2007), which compared the indicators of beneficiary and non-beneficiary families of equal socioeconomic standing. It is thus just a proxy of likely impacts of the program with the usual problems attached to this methodology. A thorough assessment is currently being undertaken by the Ministry of Social Development and IBASE. ***Data from the National Household Survey, 2006 PNAD (IBGE 2008b), confirmed the data obtained from the AIBF preliminary evaluation.

of the MW. However, the policy of readjustment of the real value of the MW might have prevented authorities from fixing the eligible per capita income in terms of a fraction of the MW.

¹³As the study reports: “For the poorest five percent of the population... the transfers can represent 10 per cent of their total income. Thus, bottom-sensitive measures reveal a bigger impact than the headcount ratio. For example, in Brazil the poverty gap shows that Bolsa Família was responsible for a 12 per cent reduction in poverty while the poverty severity measure shows that it produced a 19 per cent reduction.”(p.4)

The influence on the fall of inequality (in connection with the reduction of extreme poverty) has been widely heralded in the country and may be responsible for the huge popularity the program enjoys right now. Still, we may wonder whether inequality is going to keep decreasing in a sustained manner if the program is maintained, or even expanded to include 16- and 17-year-olds, as has been projected for 2008. We have reason to believe that this prediction is rather unlikely unless the program becomes more of an opportunity equalizing one.

3. Is the impact on inequality sustainable?

Two rather contrasting stylized facts have attracted my attention recently, suggesting that the political economy behind the Bolsa Familia may be in trouble.

The first of these began to surface when a 2007 poll showed the popularity of Lula's presidency as well as his government to be very high (CNT/Sensus 2007). According to the poll, Lula's government had the approval of 65% of the population. While the approval rating among the other economic strata was well above 50%, among those who earned more than 10 MW – middle and upper class people previously generally not supportive of the president and his administration – surprisingly, 46% also approved of the government ('good' and 'very good' answers), while a full 70% considered Lula's government to be average or very good (in other words, less than 30% disapproved of it).

Although part of the strong support for Lula and his government might be attributed to the country's economic performance under his rule, the social programs, and Bolsa Familia in particular, are also part of the story.

The following figures give a hint of the association between the government's popular support and the Bolsa Familia program. According to another 2007 opinion poll,¹⁴ among those in the adult population who had received BF benefits, 79.5% approved of the government; among those who had not but knew someone who had, 72.8% approved of the government; and among those who had not received it and did not know anyone who had, 46.1% also approved of the government. The last figure suggestively coincides with the percentage of the adult population earning more than 10 MW that approves of the government.

¹⁴ Encarte Tendências 2007.

Now, I call this “fact”, for which I have only indirect evidence, an expression of Brazilian “in natura” solidarism,¹⁵ incidentally, a fact that has gone quite unnoticed in the analyses on government social programs.

The second fact emerges from the mounting criticisms the program has received, especially from the media and from opposition party leaders, as well as more concrete threats to its financial stability. These have ensued after the announcement of future expansions of the program.¹⁶

The arguments that have appeared in the media are diverse and not entirely congruent. Op-ed pieces, letters to the editor and “investigatory press” usually ask for more efficiency in the program (more monitoring activities to prevent leakage and to make sure that the conditions are being abided by). But they also often convey the notion that the program is crowding out public education spending and thus should give way to it.¹⁷

Another line of objection is that the program is “assistentialist” and as such will increase poor people’s dependence on the state (instead of encouraging responsibility and autonomy). Quite surprisingly, this position has recently been taken up by the Catholic Church’s “Social Pastoral” (a progressive branch of the Church that is very active in poor communities in the country).¹⁸ This line of “moral sentiment” argument sometimes has been reinforced by economic arguments to the effect that the program should invest more in so-called “exit doors” to be economically effective. Actually,

¹⁵ Successive polls were published while I was writing this article and they all showed Lula’s popularity on the rise, across all income and educational strata. A February 2008 poll, conducted by CNT/SENSUS (CNT/SENSUS 2008), showed that among the middle and upper income classes, Lula’s approval reached an unprecedented level of more than 50%, and among those with a college degree, the approval also was an unprecedented 57.4%. The approval was very high among the less educated and poorer, reaching 81.4% among those earning less than one MW and 74.5 % among those with less than four years of schooling. A last opinion poll by IBOPE in March 2008 showed Lula’s approval to be at around a peak of 73% and his government approval to be at an unprecedented 58% of the population.

¹⁶ In 2007, the government announced its intention to expand the program to include 17- and 18-year-olds of the beneficiary families, responding to the high levels of school dropout that has been detected among teenagers.

¹⁷ This opinion has often been voiced by the editor of the main newspaper in Rio de Janeiro, Ali Kamel. Recently, he reaffirmed his viewpoint by denouncing that BF recipients were buying home appliances and concluding that the government instead of giving them money should invest in schools. In O GLOBO 2008.

¹⁸ The chairman of the “Comissão Episcopal Pastoral para o Serviço da Caridade, da Justiça e da Paz” (Episcopal Commission for the Charity, Justice and Peace Service), Dom Aldo Pagotto declared so during a press conference of the Brazilian National Bishops National Committee (CNBB). See AGÊNCIA BRASIL 2006.

among the defenders of the program's philosophical orientation, there is a sense that the issue of the exit doors is a critical one.¹⁹

A further line of resistance, usually voiced by opposition leaders, advances the political argument that the program is basically motivated by Lula's and his Workers Party's desire to remain in power and win the next 2010 presidential elections.

All these propositions are of course open to empirical investigation and may challenge the policy to varying degrees. For example, the question regarding the true motivation behind government policies may be important to the extent that the motivation itself introduces problematic practices in the policy design, implementation and monitoring. Thus far, however, there is no evidence of a clientelistic distribution of the grants by the central government – the design, implementation and monitoring of the program include many checks and abundant public information, the implementation and monitoring being strongly decentralized. Evidence supporting some of the other criticisms is far from conclusive. In some cases it is not even sufficiently clear what should count as evidence, as is illustrated by the debate over the efficiency of the policy (I address this point in the next section). In other cases, such as the fear that the program is creating dependence, recent data from a National Household Survey show that the labor market participation rate of adults is bigger among recipients of benefits than among the rest of the adult population. But the insufficiency of exit doors is generally acknowledged as a drawback. In any case, except for the “crowding out” argument (I turn to this in Section 6) and the “political manipulation” argument, the criticisms per se can be seen as potentially constructive.

However, more concrete threats to the program's continuity came up recently when a government proposal was rejected in the Senate related to the continuation of a compulsory contribution (the CPMF²⁰) that provided an important part of the funding for Bolsa Familia and also important public health programs. At the time of the Senate rejection, it was estimated that the elimination of the contribution would represent the loss of over US\$ 20 billion, or 10%, from the social budget.

¹⁹ See, for example, an interview given by economist and demographer Eduardo Rios-Neto, of Minas Gerais Federal University, the coordinator of the AIBF (2007) study, for the newspaper *O Globo*, 29 March 2008.

²⁰ CPMF stands for *Contribuição Provisória sobre a Movimentação Financeira* (Provisional Contribution on Financial Movement). Created originally as a provisional tax in 1993, the IPMF, and then recreated as a contribution in 1997, the CPMF became more “permanent” since 1999. Before its repeal, the rate was 0.38% of all withdrawals or transfers from bank accounts. It was established to fund current public health expenditures, social security and the “Fundo de Combate e Erradicação da Pobreza” (Fund to Combat and Eradicate Poverty), which is the major source of funding for the BF program.

The event was a most dramatic one, as many issues were involved. On the occasion, government officials remarked that the tax cut could jeopardize the expansion of the exit doors to the social programs. They also noted that since the rejected tax fell virtually on all financial movement in the country, its suppression would mean the loss of an important means for effective control of tax evasion, which is very high in the country.

The opposition party leaders, in turn, replied that the government is big and inefficient, and that more efficiency would save it the resources needed for the programs. They also insisted that the revenue from the contribution was prone to political manipulation: it was being spent mainly on programs intended to boost the Workers Party's electoral performance. And finally, they stressed that the tax is regressive. Incidentally, the issue of tax regressivity (quite unprecedentedly) occupied significant space in the main newspapers of cities such as Rio de Janeiro and São Paulo.

An assessment of these arguments at their face value shows that at the time of the senators' decision, there was hardly any other feasible way of replacing the lost revenue, thus posing a threat of stagnation to existing social programs and ruling out planned expansions.²¹ The question of whether or not a set of other measures might in the future compensate for the tax change is immaterial for the point here, as in the debate *no such alternative was publicly aired by the senators of the opposition coalition* – except for the rather vague and insufficient recommendation of austerity – to fill the sizable financial gap left by the end of the contribution.

As for the claim regarding the obvious electoral appeal of the program, it was remarkable that two of the likely presidential candidates from the main opposition party (the governors of São Paulo and Minas Gerais) publicly supported Lula's proposal to extend the tax, defying their own party leaders and colleagues in Congress. As possible future presidents, they were clearly not interested in burning the bridges to a certain political winner, i.e., social programs (nor of the prospect of losing federal revenue sharing to support state programs).

Finally, concerning the true claim that the tax is regressive, it is not at all clear that in the Brazilian context this has ever counted as reason enough to do away with a tax, since the tax system is largely based on (typically regressive) indirect taxes and so

²¹ However, positive prospects for economic growth, raising some other tax rates and stronger tax collection measures may help fill the gap. The basic problem remains the limited predictability of these other sources of funding.

far nobody has seemed to care much about this.²² There has been talk about tax reform²³ but not even the leftist Workers Party is advancing a proposal to make the system more progressive, let alone the centrist Brazilian Social Democratic Party (PSDB, the main opposition party).

If the CPMF was revoked irrespective of the inexistence of a short-term alternative and an electoral rationale, and in spite of a general unconcern over the regressivity of the tax system, then what is the rationale behind it? The answer may be in the distributive tension the contribution hid, the confrontation between symmetric expectations and interests.²⁴ This is my second stylized fact. The debate over the CPMF was for a while the battlefield where Brazilian distributive conflict took place. The sensed (yet not fully declared by participants) opposition is one between the interests and expectations of beneficiaries of social programs and those of taxpayers (and some tax evaders).

In a comparison of the two stylized facts – Brazilian solidarism and the distributive tension – the question arises whether the tax struggle presages a reversion or saturation of the previously detected Brazilian solidarism, and thus challenges social programs in an important and more permanent way. In Section 4 I examine the BF program's potential for exploitation (the risk of lacking solidarity), and in Section 5 the chances for improvement (the likelihood of its gaining increasing or at least stable support). My central hypothesis is that the process of tax preference formation is at least partly affected by the social programs and their peculiar pedagogy.

4. Potential for exploitation: the efficiency, redistribution, and autonomy paradoxes

I now consider the Bolsa Familia's basic institutional features as an income redistribution policy –targeting the poor and the education and health preconditions – to reflect on their influence on the program's stability via the 'political economy' connection.

²² Indirect taxes account for about 50% of the total taxes collected in Brazil.

²³ Actually, a proposal has been sent to the Parliament by the government in the aftermath of the CPMF overturn but is still awaiting deliberation.

²⁴ It should be added that in an interview published in O Globo, 19 May 2008, entrepreneur Paulo Skaf, chair of the powerful FIESP (São Paulo Federation of Industries), the association of São Paulo's industrial entrepreneurs, declared that he openly had lobbied for around 6 months at the Senate for the overturn of the CPMF.

Targeting

A perfectly targeted program is one that transfers resources to all the eligible people and to them only. This is the primary definition of efficiency of targeted programs. However, in practice this result is never achieved and decision makers face a choice between leakage or exclusion, or a combination of both.

This familiar fact about transfer programs calls for a secondary definition of efficiency. Predictably however, whatever the secondary definition of efficiency is chosen, problems of equity seem unavoidable.

If decision makers choose to minimize the inclusion error (leakages), they may face a much less extended program than would otherwise be the case (thus incurring the exclusion error), a paradoxical result in view of the goal of eliminating poverty.²⁵ If instead they undertake to minimize the exclusion error, they take the road of expanding the program and face the risk of including some ineligible people. They may also try the road of moving to the perfect target and then spending money to maintain a reliable cadastre of all eligible people, but then money that could otherwise have expanded the program will be diverted to administrative expenses.

So from the point of view of equity, the choice of a practicable secondary notion of efficiency is non-neutral.

According to Soares et al. (2007), the Bolsa Familia has an inclusion error of around 49%. However, most of these people are only slightly above the program's poverty line: according to recent estimates based on the 2006 PNAD (IBGE 2008b), the average monthly income of recipient households is under one-half the minimum wage. BF exclusion error is nonetheless 59%, which is a conspicuously high figure.

Compared with similar programs, particularly the Mexican "Oportunidades", the Brazilian program has a larger inclusion error, but conversely a much smaller exclusion error, possibly because it is also a much larger program than Mexico's (Soares et al. op.cit.).²⁶ Still, considering its twin objectives of poverty reduction and breaking the poverty cycle, the program has an overly high exclusion error of 59%, according to the

²⁵ Inclusion error is calculated as the ratio of the number of non-poor beneficiaries to the total beneficiary population, while the exclusion error is the ratio of the non-beneficiary poor to the total poor (Soares et al. 2007).

²⁶ The BF transfers income to some 11 million families (around 45 million people), whereas Oportunidades reaches 5 million families. See Oportunidades 2008 for more information on the latter program.

estimates of Soares and his coauthors based on the 2004 PNAD, or 46% according to the preliminary results of the 2006 PNAD (IBGE 2008).

The very nature of the program may have something to do with this disappointing result.

A mix of reasons may be involved. To begin with, for the program to reach the targeted people, it is necessary for them to show up and declare their poverty to the local government. In many cases, these people do not have enough information on their rights and how to get the money. Paradoxically, it is probably the poorest that are hardest to reach by the policy that targets them. In other cases, some of the eligible people would rather avoid the stigma of living on welfare benefits - the fear of long-term dependence seems quite real, considering that the program has not been able to guarantee access to the exit doors in any important fashion. A third cause is the errors in the list of beneficiaries, which is based on a mix of direct information provided by local governments and treated statistical information provided by the IPEA (Institute of Applied Economic Research, a governmental public policy think tank), which may not be eliminating the opportunities for patronage at the local level. A final reason is, quite unsurprisingly, budgetary constraints.

Still another shortcoming related to the program's design is precisely the fact that if it is mainly driven by poverty *relief* concerns, it may face continuing budget pressure. The point is of course an empirical one, and open to further testing, but quite plausible, and in view of the recent tax debate in Brazil, quite likely. The idea is that targeted programs may tend to reinforce attitudes that weaken solidarity instead of strengthen it. The link is people's willingness to pay taxes to fund the programs.

Arguably, there are many factors determining people's willingness to pay taxes. These can be simplistically described as a mix of self- and other-regarding motivations, a mix which indirect evidence seems to support in the case of Brazil, as noted in Section 2. The point is that this mix may be affected by the philosophical orientation of a social policy and may later affect the effectiveness of the policy.

In other words, the social policy *style* is not neutral when it comes to preference formation; it may and probably does impact people's attitudes and revealed preferences. If this is so, targeted social policies may weaken people's willingness to pay taxes through their in-built segregation principle, according to which "Some will pay but others will benefit". If the policy is perceived in this way, it will have to rely on very

strong (almost irrational) solidarity, which it undermines by reinforcing segregation. This idea does not presuppose that people are by nature narrowly self-interested, but rather that solidarity requires at least a sense of identification, or sympathy – as Adam Smith and David Hume would put it – with beneficiaries, which is endangered by segregation. If this is so, the result may be the well-known paradox of redistribution, evidence for the existence of which has already been extensively reported:²⁷ redistributive income policies tend to redistribute less than universal policies might do because there tends to be less to be redistributed.

As seen, public discussion in Brazil may be showing signs of a negative attitude towards expansion of the social budget. The mentioned mounting criticisms of the projected expansion of the Bolsa Familia program, and the Senate's ending of the CPMF have in this sense been quite clear signs. Some influential experts on social policy have been arguing for more efficiency in the canonical sense: that the BF program should deliver better poverty relief results for the money spent, *on a given budget*. This recommendation has also on occasion translated into a proposal to deepen the targeting strategy, i.e., to changing the universal character of public education and health provision into a program targeted at the poor (actually, the beneficiaries of the Bolsa Familia), basically by channeling these services to these people.²⁸ An exclusive focus on the logistics, however, may be missing the point that the budget *is not given*, but endogenous to the policy orientation.

Yet it is clear that if the program is to be kept, it should be expanded for equity reasons at least: besides including 16-17 year-old offspring of beneficiary families, it should also include the wrongly excluded people, considering that this is not a matter of simply eliminating inclusion errors and increasing expenditures on a more reliable cadastre, on account of inevitable tradeoffs. But not only for equity reasons should the program be extended. For if it is to be faithful to its explicit objectives, namely, poverty

²⁷ Korpi and Palme (1998) stress coalition formation and the definition of interests as being conditioned by institutional characteristics of welfare states, in particular, whether they rely on targeted or universal policies. They found supporting evidence for this hypothesis in the OECD countries. See also simulations of endogenously generated budget constraints under targeted and universal policies showing that the budget available for redistribution tends to be less under “targeting the poor” policies, in Gelbach and Pritchett (1997).

²⁸ This idea was proposed in a workshop on income distribution that took place at Universidade Federal Fluminense in 2007, by economist Ricardo Paes de Barros, one of the most important social policy experts in Brazil and a former Social Policy Director of IPEA. See also Carvalho (2006), a collaborator of Paes de Barros, for arguments in this sense.

relief *and* interruption of the poverty cycle, much more money should be invested in the crucial provision of services.

Thus far, however, there has not been any important expansion of education and health services in association with the BF program. Actually, most of the funding is devoted to the cash transfers and around 10% goes to cover administrative costs and other expenses, a small fraction of which is estimated to be earmarked for the expansion of services and complementary actions. Expansion is much needed if one takes into consideration that social service systems function quite precariously in Brazil, facing problems both of quantity and quality.

Conditions

An important trait of the Bolsa Familia is the conditions. Families are eligible to receive the stipend on the condition that their 6-15 year-old children attend school and their infants and pregnant women participate in health related services. These were added, as in many new generation income transfer programs, as a way of ensuring exit doors.

Of course, the effectiveness of the conditions is contingent on these services being available and having good quality. A quick look at some of the basics of education and health services in Brazil shows, however, that service provision is critical.

To begin with, public provision of education and health is open to everyone, not only the poor. However, as the systems have headed towards universal access over the last four decades, the quality of the basic services provided has dropped and the middle classes have opted out, causing the systems to fall into further trouble and contributing to aggravate social inequality.

Hence, although the country is approaching true universal primary schooling, the end product of the Brazilian education pipeline is substandard. In the 2006 PISA exam, Brazil ranked 52nd out of 57 countries.

The public system where most poor children are enrolled is in dire straits: public schools perform poorly on average, lacking infrastructure and well-trained teachers,²⁹ paying school teachers notoriously low wages, and having very short schooldays (4.2

²⁹ São Paulo is the richest state in Brazil, but 60% of its schools have important problems of physical infrastructure, as recently reported by the state's secretary of education, Maria Helena de Castro Guimarães. See Folhaonline 2008. Most Brazilian school teachers with the public system do not have a college degree.

hours a day on average at the basic level)³⁰. Public investment in education is thus rather low: the figure for public expenditure is a mere 3.9% of GDP, the smallest expenditure percentage in the OECD and partner countries universe. While per capita public expenditure on education is US\$ PPP is 1,303 per year, the comparable figure for the 30 OECD countries is US\$ 7,527.³¹

The same is true of the health system. It has undergone a major restructuring since the 1988 Constitution, and the decentralized model which has been adopted ever since is considered paradigmatic. However, the amount of money devoted is far from what is needed: although the country spends around 8.8% of GDP on health (not far from the average of the OECD countries – 9%), the current per capita health expenditure amounts to about one half of the comparable figures for OECD countries, around US\$ PPP 1,500 in 2004.³² Besides this, the system is deeply segmented. Households fund almost half of what is spent on health in the country:³³ considering the high levels of income inequality, health provision ends up perpetuating inequalities instead of compensating for them. Public provision is thus conspicuously insufficient. It is widely acknowledged that the basic health system needs urgent investments to cope with the existing (and increasing) clientele. Actually, public investments in health provision were the main victims of the recent elimination of the CPMF tax, as more than 50% of the revenue raise was earmarked for health programs.

In short, social services are overcrowded and precarious, obviously unprepared to offer a credible hope of emancipating future generations from their families' poverty. In fact, sadly but unsurprisingly, the first assessments of school indicators of recipients of the Bolsa Família program have shown that although school attendance is high among these families' children, school performance remains very low. (Soares et al. 2007)

This piece of evidence makes one wonder about the actual rationale behind the conditions of Bolsa Família. Are they supposed to allow people to become autonomous, i.e. not dependent on welfare benefits, and capable of making meaningful choices related to their well being? Or are the conditions being imposed just on a “no free

³⁰ Incidentally, the combination of low benefits and short schooldays is probably behind the still high labor market participation rates of children and adolescents living in beneficiary households. According to IBGE 2008b, this participation was more than twice as great as that of children from families not enrolled in social programs (14.4% versus 6.5%, among children between 10 and 14 years old).

³¹ OECD 2007. The figures are for 2004.

³² See OECD 2007b and WHO 2007. The OECD countries' figure is for 2006.

³³ See WHO 2007.

lunch” basis? The difference is not negligible, especially if one is interested in social policies that are also instrumental to development.

These two rather different points of view have appeared in Brazilian public debate. Some of the influential experts insist that the conditions stem above all from the “no free lunch” principle: a benefit is exchanged for a sacrifice.³⁴ Therefore, they insist that the government should monitor the conditions more tightly, and eventually exclude the non-complying families. Others note that people’s possible noncompliance may be due to the precariousness of the services,³⁵ so it is to some extent based on sound reasoning. The government has hesitated between the two positions above, and under media pressure, all things considered, has decided to enforce compliance, cutting the benefits altogether after giving families four chances (if the family does not comply with the condition for five consecutive periods the benefit is canceled). This has resulted in the first massive cancellation of benefits since the program was launched, in September 2007.³⁶ To achieve this, the government has had to significantly increase the budget devoted to monitoring. But the crude fact remains that the social services are faulty on many counts, and so regardless of officials’ stated intentions that the conditions are there to help create future capabilities and autonomous choices, compliance with the conditions cannot help having a heteronomous character: people comply mainly for fear of losing the benefits, not based on an informed choice of the capabilities they (and their children) can acquire.

In short, from a development point of view the situation is dramatic (although from a “no free lunch” perspective, not so much): on the one hand, mere compliance is not per se an indicator of capability enhancement (due to the precariousness of the services), while on the other the maintenance of families in the program is not even a guarantee that they actually benefit from any service, since whenever the service is not being provided, the condition is simply dropped! The program has no penalty for the government’s failure to comply with its duty to offer the services.

³⁴ This position has been overtly advocated, for instance, by economist José Marcio Camargo, a social policy expert who was one of the Brazilian inventors of the Bolsa-escola (school grant) – which give rise to the Bolsa Família – has worked as a consultant to the government on many occasions and also with the World Bank and other organizations. In 2005, he argued along these lines at a preparation meeting in Rio de Janeiro for the 2006 World Development Report.

³⁵ Soares et al. 2007, for example, suggest that this may be a problem concerning the health and nutrition conditions, and also that the comparatively low performance of students of beneficiary families also points to insufficient school quality.

³⁶ Some 4000 families had the benefits altogether canceled in September 2007 due to noncompliance with the condition for five consecutive periods.

The preceding paragraphs show the need for increasing financial resources to the Bolsa Familia to achieve its double purpose. Previous mention has also been made of people's willingness (or unwillingness) to finance the scheme, which is to some extent endogenous to the program itself. How can the "it is so little, yet so much" dilemma inherent in the Bolsa Familia program be sorted out?

5. Potential for improvement: universal services with a priority rule

It may appear that, in a sense, the BF program has to "decide" the kind of program it wants to be: Is it a poverty relief program or a poverty emancipating one?

On reflection, however, this choice does not solve the political economy problem inherent in the program: even as a poverty relief program, the BF would be a big one, considering the size of its potential clientele (even if the focus is on poor families with children only). It would still involve sizable income redistribution. Moreover, if it does not provide any prospects for social inclusion or insertion, it is easy to predict that the clientele is going to remain large and growing, and the sizable redistribution will have to be kept in place for a long while.

So as a poverty relief program it is quite easy to predict that the program, framed as it has been, will have sustainability problems – if my hypothesis concerning endogenous preferences and attitudes is sound. The program will tend to shrink and take the direction of seeking more efficiency in some secondary sense: actually, some of the program's defenders propose that the government invest to upgrade the administrative list to eliminate leakages.³⁷

And what about taking an emancipatory turn?

In the short run, this would involve massive investments. However, again if my hypothesis of endogenous dispositions is correct, it would be important, to begin with, *not to socially segregate* the investment in the expansion of opportunities for the program to be supported by middle-class taxpayers.

However, this may be not enough. For if on the one hand the program is perceived as channeling education and health to the poor to the detriment of the universalization of these services (right now very precarious services that already, in practice, segregate the better off), the budget pressure may increase, which will mean pressure to shrink

³⁷ This has been the line of attack followed by Ricardo Paes de Barros and his collaborators.

expenditure on these services. On the other hand, though, the amount of investment and possibly the tax effort required to provide universal high quality services would be overwhelming. Considering that the country is not rich in terms of per capita GDP,³⁸ it is hardly feasible for it to increase public provision of universal social services, in the short run at least, so as to reach the appropriate scale and quality, even with a greater tax effort.

The challenge, then, is to create and expand equalizing opportunities without segregating – thus not compromising the program’s sustainability – in a way that is sensitive to the pace of increase in resources.

Three steps may be required. The first is to reframe and possibly rename the Bolsa Familia as an equalizing opportunity development policy. Besides the important issue of segregation, the association of “bolsa” (grant) with soft money may in part be responsible for an informally perceived ill-will over announced expansions of the program. As an opportunities policy, on the other hand, it can be seen as providing an economic opportunity for families that have fallen into poverty (thus reminding that poverty is a temporary condition, not a permanent state), hence having an insurance character, in addition to extending other general opportunities to these families.³⁹

The second is to frame the services component of the Bolsa Familia program as a social policy hybrid – partially targeted, partially universal – instead as a program only targeted at the poor, thus winning it the middle-class support it will soon very likely miss: universal services provided with a priority rule. At the very least, the enhanced heterogeneity of the clientele may be instrumental to attain support for the BF of the kind ‘I may not benefit, but know someone who does’. Thus, education and health investments associated with the program should be open to everyone but be provided in a way that impacts the poorer first, such as the provision daycare and early childhood education programs, and the extension of public schooldays (after-care programs and college prep courses) beginning with schools that are attended mostly by the beneficiaries because they are located in areas where beneficiaries are concentrated.

³⁸ The country has been growing at a healthy pace (5.4 % in 2007, according to IBGE 2008a), remarkable especially in view of the outstanding fiscal effort (a primary surplus of about 4.3% of GDP). This rate, however, still lags far behind that of other emerging economies.

³⁹ The importance of ideas in the social policy process is crucial, according to Béland (2005). Not only are policy ideas important, but they are also embedded in ideological repertoires. As he writes, “Political actors draw on [ideological] repertoires to construct frames aimed at convincing the population to support the policy alternatives they put forward.”(p.1)

Paradoxically, it may be easier to gain support for the program if it is more expensive – i.e., if it expands along the opportunity dimension – than if it remains a less expensive program of ‘targeted at the poor’ cash transfers.

The third step is to reinforce the BF program as a development policy that enhances not only well being but also capabilities. This may require a reassessment of the service provision policy. This twist may impact both the supply *and* the demand side of the BF’s economics.

6. Will the future keep outpacing Brazil? Doing it right from the start⁴⁰

I now consider the desirable orientation for the service provision in connection with a development agenda.

As noted before, some critics of BF argue that the money spent on it should instead go to expand public education.⁴¹

There is indeed some controversy in the welfare state literature concerning the compared efficacy of income redistribution and opportunity redistribution in terms of social inclusion (Esping Andersen 2007). Although this controversy seems to make sense when talking about developed countries’ welfare states (and when the issue of immigration is not taken into account), the controversy seems meaningless in the context of less developed countries. For in these countries, the poverty measured is the so-called absolute poverty, which indicates high levels of deprivation, crucially including child malnutrition.

This seems to be the case of recipients of Bolsa Familia benefits, people extremely bereft of basic needs. These people are usually employed in precarious jobs in the informal sector, and earn insufficient income to fulfill basic needs (IBGE 2008b). So the income supplement is important for them to relieve deprivation.

A critical deprivation is child malnutrition, for it may permanently endanger their capabilities later in life: their school achievement, labor market performance and the exercise of many other human potentialities. From the standpoint of social policy, this is a complete disaster: early malnutrition is a sure predictor of later social exclusion.

⁴⁰ I thank Gosta Esping-Andersen for directing my attention to the crucial issue of early childhood education.

⁴¹ Various, including the editor-in-chief of the largest newspaper in Rio de Janeiro (*O Globo*), Ali Kamel.

But education is certainly important as well. It is important on many accounts, among them the economic success of children later in life, or at least by giving them more options from which to choose later in life. But here again a critical deprivation is the lack of early cognitive (and also of non-cognitive) stimulation, without which much of later schooling and social life are hindered (see Heckman and Carneiro, 2003 for a thorough review; and Farkas, 2003). This cognitive stimulus is crucial in the very first years of childhood and may be lacking in families with low education levels and “cultural capital”, something normally related to poverty (rich families can buy the cultural capital they may lack) (Heckman & Carneiro *op. cit.*; Esping-Andersen 2007; De Graaf et al., 2000). A growing body of literature, drawing on the evidence of Scandinavian countries’ early childhood education programs, has convincingly argued the importance of early education of infants as a way of enhancing their cognitive skills and hence their later school and labor market accomplishments (Esping-Andersen 2005 and Esping-Andersen 2007 extensively report on this literature). Conversely, a critical risk to poor children is cognitive “malnutrition”, which means the lack of a cognitive structure where later contents may be added to and interact in rich ways. And cognitive malnutrition is also a good predictor of future social exclusion.

From the perspective of social policy, then, the expansion of the public education system should critically include the provision of good quality external care for infants.

There are some programs already in place in many countries, but conspicuous experiences are the American Head Start and Perry Preschool programs, and the British Sure Start program. Both the Sure Start and Perry Preschool programs go beyond care for infants and reach out to families with a number of services to parents as well. The Sure Start scheme has a program of extended schools for poor children (after-school programs). Evaluations of these programs have shown the relative success of those which “invest” in the family, for it seems that somehow these investments prolong the effects of early childhood interventions (Heckman and Carneiro, *op. cit.*).

The expansion of the public system should also include substantial investments in the existing system, due to its poor quality. But it also has provision problems, if one considers the extant infrastructure as well as the need to expand it to enable the extension of schooldays – a critical issue in Brazil’s educational system in spite of the low concern of public officials and social policy experts in the country.⁴² These

⁴² For a critical view, see Kerstenetzky (2006).

problems may be at least in part responsible for the conspicuously low school performance of Brazilian students on standardized tests.

Should these programs target the poor?

If one abstracts from political economy and more “sociological” factors (legitimacy) as well as from plausible expected interactions (overall cost-effectiveness), targeting poor children would have opportunity equalizing effects, since non-poor children are obviously not as opportunity constrained as the poor are.

However, political economy factors may be important. To the extent that they are, there tends to be less support and possibly greater difficulty to obtain funding for redistribution, as the Brazilian public debate has made clear. That is, the social policy has to be perceived as legitimate in some appropriate sense, especially by those who are going to pay for it. To the extent that its legitimacy is conditional on the policy style – in particular, on its segregation feature – it is possible to predict that the likelihood of raising the necessary revenues to even the playing field is going to be low. A segregationist social policy tends to reinforce the perception of a segmented society, and a segmented society is certainly one with recurrent social cohesion problems.

On the cost-effectiveness side of the coin, evaluations that consider targeting as equality-superior to universal policies normally neglect the importance of interaction effects. One such effect emerges in mixed schools and mixed health clinics. This is the “raising the standards” effect. Schools that mix students from different backgrounds tend to raise poor students’ school performance without diminishing that of non-poor ones, provided a critical quantitative mix is achieved (Kahlenberg 2003). Mixed backgrounds are also instrumental to more responsive and accountable schools, in that middle and upper classes parents tend to exert more voice than poor parents do.

These are empirical observations that are of great value for policymakers. But of course other not directly observable but very important effects are also likely. For example, people who regularly share the same space tend to develop some sort of attachment, a sense of one another’s “aliveness”, which may help them to see the value of one another’s lives as equal. In very unequal countries like Brazil and others in Latin America, these encounters between affluent and non-affluent people are fortuitous and sometimes, as in large urban areas, quite threatening.

So it seems to be at least a doubtful investment to spend money on school and preschool systems that are in practice segregated, in terms of the effectiveness of the desired outcome, which is good school performance and better life chances for children.

How expensive?

The expansion of education and health services in the manner indicated above will no doubt require large investments. Just to give a conservative idea of the amount required, I calculated the Brazilian social deficit by comparing the country’s average expenditures on education and health with those of better performing countries, and arrived at the following figures:

Table 4: Estimated education and health investment deficits (US\$ million) - 2004

Total education deficit*	122,530.00
Pre-primary education deficit*	8,530.00
Total health deficit**	8,191.00

Source: Author, based on WHO Statistics Report (2007) and OECD statistical data. The methodology and calculation were developed jointly by the author and Livia Vilas Boas. *Total education and pre-primary deficits were estimated by calculating the average per capita expenditures of Chile (the best PISA 2006 performance in Latin America) and Korea (one of the best performers in the OECD group, not a big spender), and the same figure for Brazil, then multiplying the difference by the respective Brazilian student population. ** This was calculated following the preceding method, this time comparing Brazil with the better performing (in terms of life expectancy) and rather parsimonious Cuba.

As for pre-primary education, average attendance rates are low in Brazil, and more so among beneficiaries of social programs like Bolsa Familia. Less than 13% of infants under four years of age, and around 73% of children from 4 to 6 years of age of recipient families are enrolled in daycare centers and nursery schools (IBGE 2008b).

The first thing to bear in mind is that these investments pay off: the present value of future returns is far superior to the present cost, as estimates by Esping-Andersen (2007) have shown. He estimated a dynamic accounting of childcare provision and concluded that the gains outweigh the costs in the long run, mainly due to mothers’ additional participation in the labor force and corresponding additional tax revenue. Another way of computing it is to estimate the costs of poverty, or more accurately, the costs as well as the forgone economic gains of child poverty, as Holzer (2007) has done rather crudely for the American economy – some 4% of GDP is lost due to child poverty (forgone human capital, health expenses, crime suppression Some may argue

that the future is ahead and the estimation is counterfactual. Perhaps at base, the decision should be taken on the grounds of the currently sensed effects of social exclusion and the very sensible consideration that ineffective policies are a waste of time and effort.

In any case it is unlikely that a country like Brazil, not poor yet not rich, is going to amass in the short run, even with a bigger tax effort, the resources needed to change its opportunity structure substantially. So one should not discard a mix of universalism with targeting in the provision, where the targeting element works as a priority rule, not as a segregation line, in the expansion of social services in a way that, although not excluding the middle classes, reaches out to the poor first. A community approach might do the trick here. Hence, targeting strategies working inside more universal schemes might help to make the system more feasible in a way that redresses inequalities and helps overcome the distributive dead-end.

Back to the future, the focus on children is crucial for the country finally to catch up with its future.

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