Assessing Fiscal Sustainability: A Comprehensive Analysis of Brazil’s Continuous Cash Benefit (BPC) Program

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Abstract
This paper analyzes the Brazilian social benefit known as Continuous Cash Benefit Programme (BPC), considering its rules, resource utilization, potential impacts, and adverse effects on society. The literature review was based on the Austrian Theory of Economic Intervention. We observed that the BPC needs to be reassessed regarding values, long-term sustainability, and control of adverse effects. Results showed that the value of the BPC per capita is higher than the value of other social benefits in Brazil.

Index terms—social protection, continuous cash benefit program, public expenditure, government intervention.

1 Introduction

nterventionism in Brazil is communicated to society through ‘goodwill packages,’ impacting various population groups to varying degrees. Each measure may appear well-intentioned, aiming for social wellbeing, and the groups benefiting from these interventions may seem deserving. But are the results of interventionist measures satisfactory for society as a whole? Brazilian economic indicators reflect a high degree of government intervention in the country: General Government expenses reached a level close to 50% of GDP in 2022. 1 1 https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_PUBLICA CAO:44070#:~:text=A%20despesa%20total%20do%20Governo,39%2C8%25%20do%20PIB.
, the tax burden is close to 35% of GDP 2, and we have a public debt close to 90% of GDP by the IMF 3 One of this government interventions is the Continuous Cash Benefit Program (BPC). BPC is a Brazilian social benefit, provided for in Law 8,742 of December 7, 1993, known as the Organic Law of Social Assistance (LOAS), which guarantees a monthly minimum wage to individuals with disabilities of any age and to elderly individuals aged 65 (sixty-five) or older who can prove they do not have the means to provide for their maintenance or have it delivered by their family. methodology. Despite these data signaling a high degree of state intervention in the economy, the feeling is that the return brought to society is not commensurate with the promised and expected results, given such interference. 4 In this context, the primary aim of this study is to undertake a thorough analysis of Brazil’s Continuous Cash Benefit (BPC), scrutinizing its regulations, resource allocation, potential consequences, and societal drawbacks. The methodology adopted is bibliographic research discussed through the data analysis related to the benefit under review and other existing benefits in Brazil. The following factors will be analyzed: (a) the budget allocated to this benefit, both in total and by type of beneficiary, (b) a comparison of the relationship between the cost of the benefit and the total number of BPC beneficiaries with the Bolsa Familia program, (c) the evolution of expenses related to BPC and its link to the minimum wage, (d) an analysis of the potential increase in the cost of the benefit according to the age. This benefit is part of the group of interventionist measures aimed at social assistance provided by the Brazilian government. Despite its good intentions, as resources are scarce, and the benefit is paid with the population’s funds, it should be evaluated in light of its overall effects on society, its cost-benefit analysis, and possible points for improvement in its formulation/implementation.

1 https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_PUBLICA CAO:43205#:~:text=Em%202021%2C%20a%20carga%20tribut%C3%A1ria,PIB%20em%20rela%C3%A7%C3%A3o%20a%202020. 2 By the methodology of the National Treasury, the public debt is close to 80% of GDP. 4 The direct rule established to qualify for the BPC is that the per
economic security is often presented as an indispensable condition for genuine freedom. The importance of guaranteeing a minimum of subsistence means for everyone. In the author’s perspective, society who lack the resources to support themselves or receive support from their families. I pyramid of Brazil, (e) an analysis of the BPC value considering the distribution of poverty by age group in Brazil, and (f) adverse effects of BPC on the Brazilian social security system. The Austrian Theory of Interventionism forms the main theoretical framework, providing insights for the discussion proposed here. The main works used for the academic discussion in this study are Mises (1977), Mises (1990), Hayek (1987) and Rothbard (2009). In addition to this introduction, this work is organized as follows: Section 2 presents the theoretical foundation of the study. Subsequently, in section 3, an analysis of the general data of BPC, its characteristics, and its distribution among beneficiaries is conducted. Finally, the last section presents the study’s conclusion.

2 II.

3 Literature Review

According to prominent authors from the Austrian School of Economics, state intervention, even when well-intentioned with the goal of rectifying market failures or improving the social conditions of a population, can lead to adverse consequences for society. Mises (1990), Mises (1977), Hayek (2001), Rothbard (2009). Mises (1977) defined intervention as “a limited order by a social authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would”.

The author distinguishes two groups of state intervention adopted by government authorities with the aim of altering consumption in relation to what would occur in a market economy. They are interference through restrictions and interference through price controls. The interference through restrictions can be exemplified by trade barriers imposed. The interference through price controls can be exemplified by policies of maximum and minimum prices, as seen in the setting of interest rates and minimum wage floors. This definition of interventionism, according to Lavoie (1982), can be considered relatively narrow as it excludes crucial aspects such as public spending, taxation, operation of state industries, subsidized goods supply, and other forms of interventions. In this context, Rothbard (2009) expands the scope of Mises’ analysis. The author defines state intervention as ‘the intrusion of aggressive physical force into society; it means the substitution of coercion for voluntary actions’.

The author identifies three comprehensive types of government intervention: autistic intervention, binary intervention and triangular intervention. Autistic intervention occurs when an agent, which can be the government, coerces an individual without receiving any goods or services in return. Binary intervention occurs when the state compels someone to make an exchange or unilaterally offer goods or services (for example, taxes and government expenditure). Triangular intervention occurs when a third party (state) interferes in the exchange relationships of other agents such as, for instance, through price or product control. Interventionism is often justified in classical theory by the existence of so-called ‘market failures.’ This situation theoretically occurs when the free market fails to achieve efficient resource allocation through the voluntary interaction of acting agents. In this case, according to theory, state intervention may be considered justifiable to achieve more efficient market allocations and enhance overall societal well-being.

However, even from this classical perspective, there is a necessity to analyze the cost-benefit relationship of government intervention. In addition to creating market distortions and affecting individual choices, the intervention entails costs for the population, as it is financed with public resources, typically sourced from taxes and borrowing. In this context, as stated by Gianturco (2017), it’s important to note that state failures can, at times, be even more significant than potential market failures. Within the public choice theory, state failures result from unachieved or undesirable policy outcomes formulated by imperfect human decisionmakers.

4 a) Interventionism aimed at social benefits

Most government intervention measures use resources from society and redirect these resources for purposes determined by those in government, as explained by Rothbard (2012). Aids and social benefits, such as the Continuous Cash Benefit (BPC), are called ‘free’ for society. However, according to Rothbard (2012), a genuinely free good should be abundant for everyone. If a good is not abundant for everyone, it shows that this resource is scarce, and offering it ‘freely’ costs society the loss of other goods.

According to the author, the resources required to supply the government’s free service are taken from the remainder of production. However, payments are not made by users through voluntary purchases but rather through mandatory contributions from taxpayers. A fundamental division is made between payment and receipt of the service.

As we have observed, the BPC is a measure designed to ensure a minimum income for specific segments of society who lack the resources to support themselves or receive support from their families. Hayek (2001) discusses the importance of guaranteeing a minimum of subsistence means for everyone. In the author’s perspective, economic security is often presented as an indispensable condition for genuine freedom.

According to the author, in a society that has attained a certain level of overall prosperity, there is no justification for not ensuring basic security for all individuals without it being considered a privilege, while still...
upholding the overall freedom of the society. However, Hayek (2001) clarifies that the idea of economic security is vague, and the general approval of the security claim can become a danger to freedom. This demonstrates the author’s concern regarding policies offering social benefits, as often their needs will be subjective, and they may be provided to some at the cost of others’ freedom.

5 III.

6 Analysis of BPC Data a) General Analysis of Citizen Benefits in Brazil

Data from the first half of 2023 reveals that in Brazil, the primary social benefits extended to citizens (‘Auxílio Brasil’, ‘Bolsa Família’, ‘BPC’, ‘Garantia-Safra’, and ‘Seguro Defeso’) reached over 46 million recipients, which is roughly 25% of the population. The total disbursement for these benefits during the first half of 2023 amounted to R$ 111.8 billion.

Considering Brazil’s vast territorial expanse, it is crucial to analyze the regional distribution of these benefits. This data indicates that the value allocated to each beneficiary of the BPC is higher than the per capita income of beneficiaries, amounting to more than 1/4 of the minimum wage. However, a significant portion of this benefit is granted through legal action to families with per capita income exceeding 1/4 of the minimum wage, provided that it can be demonstrated that the beneficiary lacks the means to maintain themselves with dignity.

The cost to public accounts for this benefit is significant. In 2022, the total expenditure on the BPC was R$ 70.9 billion. Out of this total, R$ 38.5 billion (54%) were designated to People with Disabilities (PCD), while R$ 32.4 billion (46%) were allocated based on an age criterion. In December 2022, approximately 2.77 million PCD and 2.34 million elderly individuals received the monthly benefit, totaling more than 5.1 million beneficiaries.

Regarding the Brazilian Federative Units with the highest proportion of their population benefiting from the BPC, it is observed that, in general, the concentration of this benefit is higher among people in the North and Northeast regions. This distribution shows similarities with the map of aggregated benefit distribution, as seen in Figure 3, and seems to be consistent with the socioeconomic situation of the country, as the target audience for this benefit consists of individuals with low per capita family income. These regions generally have the poorest socioeconomic indicators in the country.

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This data indicates that the value allocated to each beneficiary of the BPC is higher than the per capita amount distributed to beneficiaries of other programs. Beneficiaries, Bolsa Família (income transfer program in Brazil) corresponds to only 47% of the total value allocated to benefits. For example, despite covering 72% of the total Increases in nominal and real benefit values have been observed over the years. Since the BPC value is linked to the minimum wage, increases in the minimum wage value, while keeping the total number of beneficiaries constant, also increase total BPC expenditures.

This information becomes more relevant when considering the real increases in Brazil’s minimum wage over the years. According to the OECD Economic Report: Brazil 2018 11 11, the real minimum wage in 2018 was 80% higher than the minimum wage in 2003. By way of comparison, the per capita GDP of the country only saw a 23% increase over the same timeframe. The legislation mandates that the value of the BPC paid to its beneficiaries should be equivalent to one minimum wage. In Brazil, the minimum wage for the year 2022 was set at R$ 1,212.
Article 7 of the Federal Constitution of Brazil establishes the right of both urban and rural workers to receive a minimum wage, as determined by law. This minimum wage is nationally standardized and should be sufficient to cover both the basic essential needs of individuals and those of their families. The minimum wage should also undergo periodic adjustments to preserve its purchasing power.

When we compare the minimum wage value in 2022 with the nominal monthly per capita household income in the Federal Units of Brazil for the same year, we observe that the BPC amount exceeds the per capita income in 12 Federal Units, representing over 44% of the country’s Federal Units. We have observed that approximately 45% of the BPC is allocated to the elderly (individuals aged 65 or older who qualify for the benefit). Data on the proportion of the resident population in Brazil by age group indicate that the country is experiencing a demographic aging process, as illustrated in Figure 7. In analyzing the BPC, this information deserves attention because the pool of individuals eligible to receive the benefit is likely to grow significantly. This could make the benefit financially and budgetarily unsustainable for the country in the coming decades.

To illustrate this conflict, TAFNER and NERY (2018) provide an example that vividly portrays the situation.

Consider two Brazilians: one contributed for 34 years, the other never. Suppose that the first insured individual always received one minimum wage. Both can only receive benefits at the age of 65 because they are not eligible for retirement due to the contribution period (which requires 35 years of contributions). The first is suitable for age-related retirement (starting with 15 years of contributions), while the second is not. However, the minimum pension and the assistance benefit floor are the same: one minimum wage. Due to the effects of tying Social Security to the minimum wage (as explained in the chapter on urban age-related retirement), 34 years of contributions would result in the minimum pension, which is precisely the same amount as the BPC.

Both Brazilians would be eligible to receive a benefit at the same age and of the same value: 65 years old, with one minimum wage. One of them contributed for 34 years, and the other never did. Does this make sense? There is concern that these rules may discourage formalization and contributions. Clearly, having formal employment is not simply a matter of choice, at least for a significant portion of insured individuals, but the disincentive is there. Interestingly, there is an additional disincentive: the legislation allows for accumulating 2 BPC benefits in the same household (for example, an elderly couple). It means that the first received BPC is not counted when assessing the poverty condition for the second BPC. The law does not extend the same treatment to retirement benefits, potentially making it impossible to receive a BPC, even if they are of the same value. In practice,
jurisprudence has extended the treatment of income received as BPC to exclude income from being considered part of the poverty line, even for pensions and retirement benefits of 1 minimum wage.\(^7\) (Note: This is a translation of the provided text.) It demonstrates that this government intervention generates the adverse incentive of reducing contributions to social security, as the benefit of one minimum wage is offered to those who meet the BPC criteria, even if they have not contributed anything to social security throughout their lives.

IV. 10 Conclusion

This study aimed to assess the BPC, a Brazilian social benefit that is part of the group of interventionist measures aimed at social assistance in the country and had a total cost of R$ 70.9 billion to public accounts in 2022.

The methodology adopted was bibliographic research discussed through the analysis of benefit data, considering its rules, resource utilization, potential impacts, and adverse effects on society. The Austrian Theory of Interventionism was chosen as the primary theoretical framework because it highlights the potential negative consequences arising from government interventionist measures.

It was noted that the per-recipient value of the BPC benefit exceeds that of other social benefits in Brazil. 37% of the budget of the analyzed social programs is allocated to the BPC, reaching only 18% of the total beneficiaries covered by all programs under review. Comparatively, the Bolsa Família program, for example, accounts for 47% of the total value allocated to benefits but reaches 72% of the total beneficiaries.

The value of the BPC benefit is also higher than the nominal monthly per capita household income of 44% of the Federative Units in Brazil.

Furthermore, concerning the financial sustainability of the benefit, worrisome factors were identified. Since the BPC benefit is linked to the minimum wage, and Brazil has a history of significant real increases in its value, expenditures on this program tend to rise over the years. From 2002 to 2022, for example, the real increase in the minimum wage was nearly 80%. Population aging should also be considered. Since approximately 45% of the BPC is allocated to the elderly, and Brazil is experiencing a demographic aging trend, it is anticipated that expenditures on this benefit will significantly rise in the forthcoming decades. The population aged 65 and over is expected to grow from 9.8% in 2020 to nearly 30% by 2100.

Finally, it was found that the BPC generates some adverse incentives. One is related to not contributing to the country’s social security by a portion of the population that expects to qualify for the BPC when they retire. Another adverse incentive is related to the possibility of the benefit being subject to judicial proceedings, which leads to the distributional analysis of BPC subsidies by income quintile of the population showing that a significant portion of the benefit is directed towards the portion of the population in the wealthiest quintiles.

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1 According to the Wealth Map of Brazil: https://cps.fgv.br/riqueza
2 © 2023 Global Journals
Figure 1: Figure 1 :Figure 2 :
Figure 2: Figure 3:
Figure 3: Figure 4:

Figure 4: Figure 5, Figure 5: 6 Global
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<th>Brazilian federative units</th>
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*Fonte: IBGE, Diretoria de Pesquisas, Coordenação de Pesquisas por Amostra de Domicílios, Pesquisa Nacional por Amostra de Domicílios Contínua - PNAD Contínua - 2022.*

Figure 5: Source: Censo 2022 Figure 6: [Diagram showing distribution of data over time]
10 CONCLUSION

Figure 7:

Figure 8: Figure 7:

Figure 9: - 1 /Figure 8: