
Pension Reform in Brazil: a slippery slope or a step ahead?

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Abstract

Since the institution of the Brazilian social security system, back in 1988, pensions have been under relentless pressure. The Brazilian pay as you go system survived several parametric reforms and preserved Brazilians' confidence. Unlike trends that prevailed in other Latin American countries, mostly combining mixed schemes (fully funded and limited PAYG schemes), Brazil succeeded in consolidating its public pension system in the 2000s, thanks to growing revenues derived from the expansion of formal jobs (contributions) and the remarkable expansion of domestic consumption, and also despite a regular increase in tax breaks for capital (payroll, tax credits, and tax exemptions) and strong incentives to the complementary (and voluntary) fully funded regime. However, from 2013 onwards, this setting changed radically and rapidly, not only as a consequence of the slow down of the economy, but also as a result of major and structural shifts in labour regulation. As the fiscal crisis deepened, amplifying the public debt relative to GDP, and a complex and unexpected political predicament took over, arguments in favor of the privatization of the public social insurance scheme resurfaced, gaining a new momentum. With the election of a far-right neoliberal government, the risk of a slippery slope leading to the dismantling of the public scheme seems inescapable, although no clear, coherent, and comprehensive proposal has been presented to discussion so far. This paper points out what is at stake if the pension reform is implemented both for civil servants (special regime) and for regular workers (general regime). I will take four steps to do so. First, I will briefly feature the public pension system, underlining its major advantages, accomplishments in terms of coverage, level of benefits, replacement rates as well as its drawbacks and financial flaws. Second, I will systematize all steps taken in order to start smoothly reforming pensions in Brazil since Fernando Henrique Cardoso's government up to Temer's. Third, I will gather the main principles that organise the current frameworks in favor of moving from a PAYG to a fully funded system and the role played by the financial sector in campaigning for this radical move. Its consequences for people's wellbeing and levels of inequality and poverty will be highlighted. Finally, I will question why only fighting for preserving the current bismarkian-model (contributions by employers and employees) seems inadequate and controversial given the recent fully flexibilization of the Brazilian labor market. It is time for the progressive forces to come up with new policy choices reflecting social values, preferences and real constraints for a peripheral country. I will bring to the table issues and principles that need to be addressed if a progressive reform prevails.

Keywords: pension reform, fully funded systems, Brazil, financialization

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