

# THE NEW BRAZILIAN FISCAL REGIME AND DEMOCRACY: INTERPRETATIONS ABOUT AN INCOMPATIBILITY

O NOVO REGIME FISCAL BRASILEIRO E A DEMOCRACIA:  
INTERPRETAÇÕES SOBRE UMA INCOMPATIBILIDADE

EL NUEVO RÉGIMEN FISCAL BRASILEÑO Y LA DEMOCRACIA:  
INTERPRETACIONES ACERCA DE UNA INCOMPATIBILIDAD

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## Abstract

The most severe contractionary fiscal policy in the recent history of capitalism, perhaps the largest ever proposed in the history of mankind, takes shape in the Brazilian scenario in December of 2016. Constitutional Amendment 95 legislates on public expenditures, preventing the increase in spending for primary expenses for twenty years and excludes from the debate the restriction of the increase of the interest of the public debt and its rollover, as well as not contemplating the non-dependent state enterprises, responsible for increasing the Union's liabilities without control of the main organs of maintenance of the public budget. Under a theoretical prism, the above picture can be read from Schumpeter's vision (1991) which had anticipated the end of the Tax State as early as 1918, a framework that seems to be taking place today, under fiscal crises in several countries around the world. We would possibly be under a scenario that Colin Crouch (2004) defined as post-democracy, also in order to show the negative effects that the contractionary fiscal policy presents in relation to the current democratic regimes. Under the historical context in which the relationship between the economic policies implemented after the 2008 crisis and the consequences to the democratic State is discussed globally, the following question arises: Does the new Brazilian Fiscal Regime, by reducing the provision of fundamental human rights and the state capacity of the Brazilian government, increases a reduction potentiality on the levels of fiscal democracy (Habermas, 1998; Tilly, 2007)?

Keywords: Democracy, austerity, index of fiscal democracy, fiscal regime.

## Resumo

A política fiscal contracionista mais severa da história recente do capitalismo, quiçá a maior já proposta na história da humanidade, toma forma no cenário brasileiro em dezembro de 2016. A Emenda Constitucional 95 legisla sobre os gastos públicos, impedindo a crescimento dos gastos destinados às despesas primárias durante vinte anos e excluindo do debate a restrição do aumento concernente aos juros da dívida pública e à rolagem desta. Além disso, essa emenda não contempla as empresas estatais não dependentes, responsáveis por aumentar o passivo da União sem controle dos principais órgãos de manutenção do orçamento público. Sob um prisma teórico, o quadro acima pode ser lido a partir das lentes de Schumpeter (1991), que antevira o fim do Estado-Tributo ainda em 1918, quadro que parece efetivar-se nos dias atuais, sob as crises fiscais em diversos países do mundo. Estaríamos, possivelmente, sob um cenário que Colin Crouch (2004) definiu como pós-democracia, também com intuito de mostrar os efeitos negativos que a política fiscal contracionista apresenta em relação aos regimes democráticos atuais. Sob o contexto histórico em que se discute globalmente a relação entre as políticas econômicas aplicadas após a crise de 2008 e as consequências ao Estado democrático,

suscita-se a seguinte pergunta: o novo Regime Fiscal Brasileiro, ao reduzir o provimento de direitos humanos fundamentais e a capacidade estatal do governo brasileiro, aumenta uma potencialidade redutora sobre os níveis de democracia fiscal (Habermas, 1998; Tilly, 2007)?

Palavras-chave: Democracia, austeridade, índice de democracia fiscal, regime fiscal.

## Resumen

La política fiscal contractiva más severa de la historia reciente del capitalismo, quizá la mayor ya propuesta en la historia de la humanidad, toma forma en el escenario brasileño en diciembre de 2016. La enmienda constitucional 95 legisla sobre los gastos públicos, impidiendo el crecimiento de los gastos destinados a las despesas primarias durante veinte años y excluyendo del debate la restricción del aumento referente a los intereses de la deuda pública y al aplazamiento de esta, así como no contemplando las empresas estatales no dependientes, responsables por aumentar el pasivo de la Unión sin control de los principales órganos de manutención del presupuesto público. Bajo un prisma teórico, el cuadro arriba puede ser leído a partir de las lentes de Schumpeter (1991), que antevió el fin del Estado-Tributo en el 1918, cuadro que parece concretarse en los días vigentes, con las crisis fiscales en diversos países del mundo. Estaríamos posiblemente bajo un escenario que Colin Crouch (2004) definió como pos democracia, también con la intención de mostrar los efectos negativos que la política fiscal contractiva presenta a los regímenes democráticos vigentes. Bajo el contexto histórico en que se discute a nivel mundial la relación entre las políticas económicas aplicadas después de la crisis de 2008 y las consecuencias al Estado democrático, se propone la siguiente pregunta: el nuevo Régimen Fiscal Brasileño, al reducir la provisión de derechos humanos fundamentales y la capacidad estatal del gobierno brasileño, ¿aumenta una potencialidad diminutiva sobre los niveles de democracia fiscal (Habermas, 1998; Tilly, 2007)?

Palabras clave: Democracia, austeridade, índice de democracia fiscal, régimen fiscal.

## Introduction

The central objective of the research reported here was to identify and analyze the correlation between the New Brazilian Fiscal Regime and the levels of fiscal democracy of the country after the implementation of the said constitutional amendment. In the beginning, we tried to bring to the research the arguments against fiscal rigidity that were produced by Steuerle and Roeper through the Fiscal Democracy Index, adapting it to the Brazilian reality, which has several budgets segmented for each national account. However, before making the adaptation, some limits were identified in the authors' inferences and in the conception of the index itself, which generated a disagreement with the American writers, therefore choosing to adapt the directions of the research to the findings obtained in its course, in order to formulate, before an application, a criticism of the FDI. Regarding the approach of the New Brazilian Tax Regime, the hypothesis that characterized it as a potentially harmful element to the democratic regime in the country was confirmed.

We chose to choose the mode of a case study based on the epistemology of Flyvbjerg (2001), because the argument proposed by this

author is that the cases chosen for analysis cannot be random. A promising type of case valid for social research, according to the author, is the extreme case. Therefore, EC 95 was chosen for the research because it is the most severe measure of austerity hitherto applied worldwide, thus characterized under the criterion of rigidity (constitutional), stipulated duration (20 years) and comprehensiveness (there are no exceptions for demographic variations or for economic growth).

### Modern State as a Tax State

In this section, we seek to situate the notion of Tax State, a central figure for the contextualization of the object of the research carried out. The objective of solidifying this argument will be made through the historical contextualization produced by Schumpeter. The author, in his text “The Crisis of Tax State”, describes the transition from the State to the Fiscal State<sup>1</sup>. Using the figure of an Austrian prince to deal with the state entity, the author addresses the collection of taxes on private entities to defray defense costs against recurring wars of the time. An activity that, until the moment, was not preceded by constant negotiation with the other representatives of the society, since only the payment of a part of the income produced by the individual was accepted.

After the Head of State saw that it was not possible to pay the bills, since the loans made with his vassals were saturated, he instituted the taxes through negotiations that included the private sphere, justified by victory in the war as a good of public interest. Thus, the separation between what was public and what was private was consolidated; Schumpeter further asserts that the individualities of the mercenaries participating in the army, the vassals, and the ordinary citizens of the time were necessary for the subsequent establishment of the common desire which, in the Austrian case of that time, were the victories in the conflagrations. Over time, the state began to charge more taxes on various activities in the economy and the complexity of the tax system has increased significantly, as has the variety of modes of collection, showing that tax exemptions have not only created this state form but also shaped the current social structure (Schumpeter, 1991).

The incidence of taxes on private entities is an activity with negative content for individuals since there is a suppression of a part of

private income. That said, the individual is not content to give part of his remuneration and cannot legislate on what happens to the amount collected by the State. Thus, the public begins to demand participation in the public decision, causing the state organizers to accept a process of granting the decisions to individuals. This process indicates that the government initiates the sharing of power with the people, having to cede part of the state apparatus to popular demands. This argument will become clearer in the following section with Chales Tilly (2007), as well as a deeper understanding of the relationship between democracy and state capacity.

### Democracy and State Capacity

The particular purpose of this section is to present the definition of the democratic category in relation to Charles Tilly's view and relate it to state capacity. The importance of having a clear explanation of democracy is visible when it serves as a basis for the characterization of regimes (democratic or non-democratic) scattered around the world, where several cases are found that it establishes itself in the constitution, but in practice it does not show itself as such or where there is a constitutional apparatus that brings the democratic regime, but the state has not enough fiscal reach to provide basic rights. Two examples would be Kazakhstan, which has a democratic constitution, but President Nazarbayev practices a dictatorship with strong repression and Jamaica, which finds strong evidence of democracy, but still can not establish a strong state presence to contribute actively with the Jamaican citizens (Tilly, 2007). Thus, the elucidation of this polysemic category will be of great benefit to the continuity of the work, applying, later, a constructive criticism to the index of fiscal democracy and to the constitutional amendment 95.

Rescuing Robert Dahl's polyarchival ideal, Charles Tilly enhances the author's definition of democracy, since he understands that the relationship can be simplified by the degree of political relations between citizens and the state in terms of the breadth and equality of public policies (on the side of citizenship) and protection together with consultation with popular interests. Democracy, according to Tilly, is characterized by the combination of these four categories. The notion posed by the author

allies the state's ability to increase a nation's degree of democracy, as some points are highly correlated with the effectiveness of the state institution.

State capacity can be understood as the scope of governmental intervention in the private sphere, not only the magnitude of the process, but also the fluidity with which public policies can achieve the goals set out in the government project during the pre-election period (Tilly, 2007). A certain amount invested in health, for example, would not be enough to determine state capacity alone. First, it would be necessary to analyze the direct and indirect consequences of this policy, since these serve as the basis for the measurement of efficiency (scope); the consequences, in turn, would be more profound and permanent the more organized and well-structured the governmental institutions were. State capacity can also be understood as the imposition of the State on private enterprises, as measured by their dependence on them, that is, a state organization that is vulnerable to successive requests from large multinationals with personal interests of the CEOs, has a degree of democracy, given that government decisions are constantly changing and surrounded by private decisions, making it difficult to validate popular applications.

This dependence on the State in constant negotiation with companies and private entities is related to the idea already presented in the previous section with Schumpeter (1991), where the state body, undermined by state capacity, needs to interact with agents to obtain more resources. In return, the government must provide for greater control over the state machine, characterizing the regime as more democratic. Tilly's maxim is that the more the state collects from individuals in the form of tax, the greater the level of the country in terms of democratization must be. The contrary idea is also valid, that is, the less the State taxes in the private sphere, the less satisfaction with the decisions it is necessary to offer<sup>2</sup>. The Brazilian case, starting with Constitutional Amendment 95, can be cited as an example of the second argument.

It is important to stress that state capacity is not alone responsible for the characterization of a regime as democratic. Past experience in the Brazilian scenario corroborates this assertion by showing that, in the midst of a military dictatorship, the state had immense power to change relations in the private sphere and a massive influence not to be so affected by external opinions as the dictatorship of Kazakhstan commanded by Nazarbayev and presented by Tilly. Tilly's thesis, however, indicates that

the increase in state capacity leads to further democratization, given the need that the bureaucratic apparatus and its rulers have to obtain acquiescence with the respective defrayal. Not without a mixture of irony and historical precision, the author goes so far as to assert that autocratic regimes like those of Louis XIV or Putin paradoxically open the historical setting for democratizing pressures. In any case, the definition of democracy, previously set, only correlates with state capacity, but it is not equivalent to it. Thus, consideration should also be given to constant protection and consultation.

### Democracy, Human Rights and the Critique of the Fiscal Democracy Index

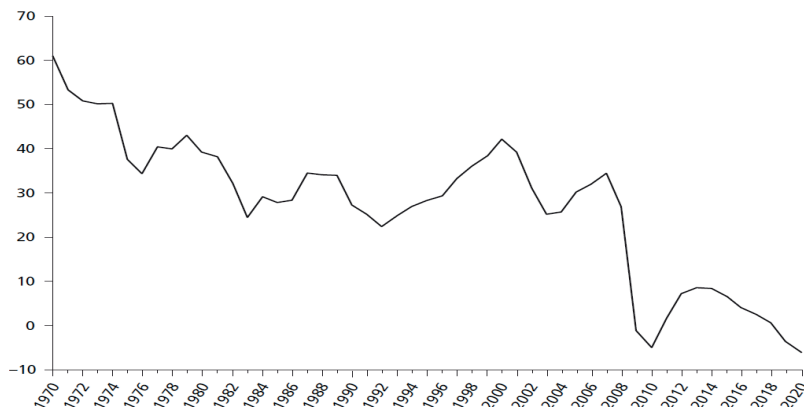
The actions taken by a government impact on the subsequent periods, even more, when it comes to projects carried out that require a high budget burden for their maintenance. Thus, an effort was made to elaborate the Fiscal Democracy Index. The US authors Eugene Steuerle and Timothy Roper, seeking to measure this fiscal flexibilization, under the theoretical premise that the more democratic a country in the fiscal field, the greater the flexibility of the State to choose the priorities that will receive investment and, thus, the vote will have a greater effect on this decision (Steuerle, 2010). This index was adapted to the German reality by the critics of austerity, Wolfgang Streeck, and Daniel Mertens. At first, it would be pertinent to apply it to the Brazilian context, with a view to developing the argument that is intended to be discussed in this article. This is not the case, however, as justified by the reasons below.

Before entering the theories that point the limits of the Fiscal Democracy Index, it is relevant to depict the calculation behind it, as well as to elucidate the conclusions of the American author Eugene Steuerle.

Beginning with the definition of the index itself, in words, it is possible to delimit this as being a measure of the parts found in the federal revenue budget after subtracting expenditure committed with permanent programs that do not need congressional approval, however, from the algebraic point of view, the index formula is observable as:  $1 - \frac{\text{mandatory expenses} + \text{interest}}{\text{revenue}}$ . Thus, the higher the revenue, the higher the value assumed by the FDI, and an increase in interest or mandatory expenses will cause a decrease in the final value to occur<sup>3</sup>.

By looking at the equation in relation to their separate accounts, it is clear that the only difficult part for most countries is “mandatory expenses”<sup>4</sup> since the elements of this vary greatly due to the constitutionality of each State. When other scholars wish to reproduce the index for their home country (or for any other nation), the comparison with the US result turns to be impossible. The case of the German attempt is an example, since the authors had to select some specific accounts that they considered extremely mandatory / linked to the public budget, since the German parliament does not behave in the same way as the US. Therefore, the choice of the mandatory expenditures that will make up the index will never satisfactorily meet the methodological requirements of comparability and replicability.

The chart below is taken from the article “An index of fiscal democracy”, written by Streeck and Mertens, and shows the dynamics of the FDI from 1970 to 2010, with a forecast for 2020. A simple analysis of the graph leads to the conclusion that, over time, the index shows a sharp fall, approaching zero. In other words, assuming the premises of the index, US fiscal democracy diminishes over time, given that discretionary spending is increasingly being reduced by governments, corroborating the hypothesis raised by Steuerle. There is also a moment when the value goes from the zero marks, indicating that in some years after the financial crisis of 2008, there was a total commitment of the budget of the Union with the obligatory expenses and payment of interest of the public debt. The reason behind the decrease in the index is the sharp decline in revenue, due to the lack of collection produced by the economic crisis, having, in this scenario and then, a budget imbalance, since the adaptation of government expenses does not adjust rapidly, given the constitutional and bureaucratic apparatus of the nation.



Graph 1 - Fiscal Democracy Index (Steuerle-Roeper - 1970 - 2022) - Percentage of government revenue

Source: author's calculation with data from Historical Tables and Budget and Economic Outlook (Streeck; Mertens, 2010).

The immediate conclusion that the American author had of his own index is often partial, since the focus on the numerator (responsible for mandatory spending and interest) is greater than the denominator (revenue), that is, the discussion in the book in which Steuerle (Dead Men Ruling) discusses his indexation both theoretically and empirically, as well as in the original papers<sup>5</sup> which deal with the FDI, is lined up on top of the nation's mandatory spending cut and debt relief. Little is said about an expansion of the state's collection capacity, a measure that would also reduce fiscal rigidity<sup>6</sup>, that is, at no time was the hypothesis of negative or positive oscillations on current revenue raised, thus indicating that the calculated value of the index has an ergodic tendency of negative approximation.

The initial conception of the research that informs this article had as its central ambition the formulation of an index adapted to the Brazilian reality for the measurement of fiscal democracy, aiming to reach conclusions and results similar to those of Steuerle, suggesting that the fiscal rigidity brought by the Constitutional Amendment 95, in effect, would bring about a decrease at the democratic level. However, it was concluded that the proposal is not applicable, since the cut in spending associated with an increase in the democratic level is a paradoxical



proposal, allowing to shift the focus of work and making room for notes on the limits of the index and solutions of its creator.

Beginning with a German philosopher named Jürgen Habermas, the first criticism of the Fiscal Democracy Index is precisely about the proposed cut of compulsory spending to increase the value of the FDI. In his book, *Inclusion of the Other*, Habermas consolidates the uniformity between human rights and democracy, that is, from a logical rather than a chronological perspective, the presence of the democratic regime presupposes the guarantee of human rights. The understanding behind this maxim is based on private autonomy within society, which is responsible for the creation of laws, i.e. without the guarantee of basic rights to the citizens who elaborate these laws it would not be possible to reach a public autonomy and, consequently, there would be no popular sovereignty (democracy). Given this, it is reasonable to conclude that there is a comparability between democracy and human rights, as well as between private and public autonomy (Habermas, 1998).

Returning to the criticism of the FDI, one has to say that the majority of the obligatory expenses of a nation, being these chosen by the authors or guaranteed by the Congress, will contain expenses directed towards the guarantee of these rights. Therefore, it is incongruous to cut costs associated with guaranteeing the improvement of the democratic level, since the contractionary fiscal policy will reduce levels of education, health, among others if it is applied in order to reduce mandatory / linked expenses. Steuerle sees the problem of fiscal rigidity, which, in fact, is disturbing for any nation due to democratic sovereignty, but the solution is not feasible, there are other ways to decrease the index. Looking for an expansion in the capacity of tax collection or to stop the tax exemptions crucial to the public budget can be brought up as examples.

Another limit presented in Steuerle's text is the conception of what democracy would be. It is difficult to find in his writings a definition that accounts for the vast debate that occurred during the twentieth century between the different currents of contemporary democratic theory. The author understands that popular sovereignty is only supported during the electoral period since much is said about the decrease in the effectiveness of votes. Nonetheless, current democratic regimes allow for greater popular participation through numerous participatory arrangements that are surplus and complementary to suffrage (Santos; Avritzer, 2003; Cohen; Fung, 2004).

Democracy goes far beyond this momentary analysis of voting power and, over a broader historical horizon, is related to the notion of state capacity discussed in the previous section. The idea of cutting public expenditures associated with the restoration of the democratic level seems contradictory because a cut in mandatory expenditures can increase flexibility in the budget, but it compromises the state's efficiency in contributing to the improvement of the nation's life, a concept linked to the capacity state of Tilly. It can also be inferred, using the new conceptions about democracy presented here, that the fact that the public budget is less rigid does not necessarily imply immediate convertibility to degrees of democracy, since the final destination of this financial amount will still be decided by public managers, and may be directed to human rights accounts or to places where the population does not enjoy as much as the payment of interest on public debt.

Already highlighted, there are several cases of countries with immense state capacity, but with low adherence to popular incentive programs, as well as numerous regimes with high signs of democracy and low conditions to be imposed on the interest of large national private companies. It is not only the state capacity that will import to indicate the democraticity of a regime, but it is a variable of great importance. A decrease or freezing of public spending suggests a contraction in what is understood by democracy<sup>7</sup>, indicating the opposite way proposed by the North American authors.

The last section of criticism of the Fiscal Democracy Index has an algebraic origin and is found in this very formula. There is an equal treatment of "mandatory spending" and "interest payment" accounts, even if these two accounts do not behave in the same way when it comes to the ultimate goal. Payment of interest/rollover of public debt benefits a specific group of lenders who are in favor of spending more exacerbated with this macroeconomic account. On the other hand, compulsory expenditures, as discussed previously, may have at their core various expenditures for social purposes, and the low-income population tends to demand more of these resources. It turns out that in the FDI these two accounts are in the numerator, not giving importance to the separation of the two, so it is not calculated the partial impact of a rubric on the final random variable (the value of the index itself). One possible correction would be to calculate an index by dividing discretionary spending by revenue<sup>8</sup>,

since the intention of the author is to calculate the margin of spending that the government has in relation to the current revenues and, therefore, it will not be a problem to calculate it that way. Thinking of an intuitive example, one can have a situation that the interest expense increases, the mandatory spending decreases, causing the revenue to decrease (fiscal multiplier), but the government decides to increase the tax collection and keeps the revenue stable in the short term, this will cause the FDI to remain almost constant and the atrocity committed with expenses such as health, unemployment insurance, retirement etc. will not be perceived.

It turns out that the hypothetical example cited above can be transposed into the current Brazilian scenario in the context of EC 95, this being the New Fiscal Regime. A part of the public budget is filled by paying interest and rolling over the public debt, this national account is not contemplated in the institutional text of the former PEC 241, i.e. the policy of cutting expenses will not affect interest, proportionally, there will be an increase in the share of interest payments in the Union budget and, consequently, a decrease in the nominal value of the index<sup>9</sup>, because the numerator will be increased given the increase in the “interest”. At the same time, there is a cut in primary public spending for twenty years, which may indirectly reduce the numerator of the FDI, since primary expenditures, even if discretionary, are capable of having an impact on the decrease in aggregate demand and, with this, will negatively affect the mandatory spending of the Union and the ability to extract taxes, due to the decrease in private income, reducing government revenue. These two movements may cancel out within the index calculation, as austerity increases the nominal value of the FDI and the fall in revenue decreases it. After this, the Brazilian government may choose to increase the tax burden to honor the commitments made and the mandatory expenditures established by law (a move made by the Temer government). This effect causes an increase in the nominal value, however, in the aggregate, the final quotation may be constant, leaving unnoticed the fiscal maneuver made, since this impact may have its amount equal to the initial decrease in the index caused by the increase of the payment (first stage of the benchmarking exercise). This implies that the index can not accurately capture the progress of the Brazilian economy, and not only of this economy, causing the final value to be underestimated, that is, distorted for several situations, as corroborated by the example above, the index

opens the possibility of remaining with constant values, even if there is a great constitutional and structural change in the country, being this, in the Brazilian case, EC 95.

The composite index of this form can serve as a pretext for the argument in favor of neoliberal politics as austerity or even for the arguments in favor of the cut of strictly social obligatory expenses, leaving to the researcher the best way to use it.

Having discarded the approach on the relationship between democracy and austerity in present-day Brazil based on the IDF, the following sections are intended to provide an alternative, interpretive, treatment to the matter.

### The Economic Policies of the PT Government (2003-2014)

After a few decades of governments concerned with the stabilization of macroeconomic aggregates, there is a well-studied governmental transition within the Brazilian political-economic area. Surrounded by great insecurity on the part of debt creditors, as well as investors (foreign and domestic), the first electoral period of the new millennium would bring a new party to the presidency of the republic in the figure of Luiz Inácio Lula da Silva. The generation of discomfort was then attributed to the old discourse<sup>10</sup> allied to the most radical ideas of the Workers' Party (PT).

Although there were points of divergence with previous governments, it is possible to characterize Lula's first term as maintaining significant features of a neoliberal policy, understood as the one that according to which the parameter for evaluation and legitimation of state performance lies in the scope of the market economy, which this is not only liberated from significant state interference (as in classical liberalism), but moves forward to intervene, regulate, and define the state's performance (Brown, 2015).

The justification for this classification is given by not breaking with some policies adopted (both fiscal and monetary) in past mandates. Lula should keep the word of no-change to the market<sup>11</sup> and because of this he appointed Henrique Meirelles – an Orthodox economist who had been the president of the Bank of Boston – for president of the Central Bank and Antonio Palocci for minister of economy, against the expectations of the

media and the people, who expected Guido Mantega, heterodox economist with historical connections to PT, as Minister of Finance. This indicator shows what would be done with fiscal and monetary policies during the next three years of government: they would be under IMF supervision.

Not surprisingly, with Meirelles in the presidency of BACEN, the anti-inflation formula was to reduce the money supply, since a monetarist diagnosis was being followed (Milton Friedman), that is, inflation was seen as purely monetary. In Brazil, therefore, the huge interest rates were adopted<sup>12</sup> and even after an immediate result in the first years of government (due to policies adopted in the FHC government and the commodity boom), the remuneration for giving up liquidity did not subside, and the justification was that a high maintenance of this rate was necessary so that the foreign capital did not leave the country and, with that, a rollover of the public debt was allowed. The surpluses achieved in the first years of government played an important role in the appreciation of the real in the period, causing a devaluation of the dollar by 32% (BRL value). This argument was used to justify control of inflation by heterodox economists (as opposed to the idea of the monetary anchor) since imported products were cheap and domestic demand shifted to a distant market. However, the creation of this surplus also implied a fiscal tightening for unchanged expenditure and the consequences of a restrictive fiscal policy are given in numerous scientific works, from the fall of the level of the product to the shrinkage of the economy (Souza, 2008).

Marked by scandals such as the breach of bank secrecy and corruption schemes in the figure of “mensalão”, this transition indicated that the government would need an impulse to make the country grow again (having suffered a slowdown in 2005). With this purpose, the present minister of economy Antonio Palocci was retired and replaced by Guido Mantega (Lula’s economic advisor from the 1989 campaign). The profiles of the two economists under analysis are very divergent as far as fiscal policy is concerned, the first being much more restrictive, as has been shown in parts of the text, and the latter fits more closely with the developmental plans of the government at the time. Another clear reason behind this political decision is the need to win the 2006 elections, thus increasing public spending geared to economic growth and generating an increase in private income and, consequently, an increase in output. In 2006, Luiz Inacio Lula da Silva manages to overthrow Geraldo Alckmin and is reelected president of the republic with 61% of the valid votes.

Soon after the presidential inauguration, the first step in the fiscal policy of the government was the introduction of the Growth Acceleration Program (PAC), with economic growth being the main objective to be achieved in PT's second term. After all debate in the public sphere on monetarism and developmental ideas, this program brought to the forefront the victory of the ideals of Mantega and Dilma Rousseff (Chief of Staff) and, in addition, showed a direction that the second government would take, being is totally contrary to the restrictive view of the first mandate.

The main objective of the PAC was to achieve three goals, the first being the acceleration of economic growth (target 4.5% of GDP in 2007 and 5% per year until 2010); increasing the level of employment and the improvement of the living conditions of the Brazilian population. In order for the primary objectives to be achieved, the plan had five major blocks that should be focused over the years: investment in infrastructure; a stimulus to credit and financing; improvement of the investment environment; exemption and improvement of the tax system and long-term fiscal measures (cf. Souza, 2008).

Although there was a strong front to drive the program, it is necessary to remember that Meirelles still presided over the BACEN chair, causing the interest rate drop to be much lower than a development plan predicts<sup>13</sup>, since an increase in the marginal efficiency of capital was required, due to a fall in the value of capital goods. Other limitations faced by the program justify the bureaucratic character of the State, raising issues for obtaining environmental licenses, problems with the Federal Court of Audit (TCU), prosecution of biddings and corruption involving bodies that were directly linked to program guidelines (cf. Werneck, 2014). Most of these barriers were justified by governance as the lack of a continuous period of state management taking over the investment since something of this magnitude was not done for more than twenty years<sup>14</sup>. Despite several problems, the CAP was able to produce significant results in relation to the central objective of the program, increasing the GDP growth rate from 3.2% in 2005 to more than 5% in 2007, thus creating more than 1.5 million formal jobs (SOUZA, 2008).

Started in the midst of a global crisis<sup>15</sup>, Dilma's first government had as its main focus the resumption of growth that did not show the same levels that were presented during the last decade. However, the conduct of fiscal policy, as well as the definition of the interest rate, was not so

well taken advantage of as if there had been a recovery in the previous growth line, even if, in theory, the Dilma years would be more expansive, since the primary surplus targets had been set below the previous level.

When analyzing central government consumption, there is an increase when compared to previous levels, but the recessive nature of the expansion of expenditures is shown when the expenditures are incorporated at the municipal and state level, resulting, in aggregate, an atrophy of public consumption. In terms of investment, there was a dramatic drop in the Dilma government, due to the high expansion of gross fixed capital formation during the Lula administration, justified by the public performance of the PAC (approximately 76% of the resources were public). The indexes for the years 2011-2014 ranged from a good year to a bad one, except, obviously, for the year 2014, in which several investments had been made due to the World Cup, the Olympics, which would be held in Rio de Janeiro in 2016, and on account of the presidential elections. Another factor responsible for the drop in investment is related to the corruption schemes in Petrobrás, which is the largest state-owned company. As a result, it stopped doing a direct investment of capital in the company, thus compromising the level of investment in this way (Gentil; Hermann, 2017).

With regard to social expenditures, it is to be expected a rise in the rate of utilization of the public budget for these social policies during the 12 years of PT in power, by practicing the distribution of income through various programs (Fome Zero, Bolsa Família etc). Finally, in relation to the tax policies had an increase of the taxes for all the years of government, even with high fiscal resignations<sup>16</sup>. The tax incentives were also a trademark of the Dilma government with a gigantic IPI reduction campaign to generate new investments and increase the population's consumption of machinery, equipment, and automobiles. Direct income distribution policies also had difficulties in succeeding due to the degree of household indebtedness, as well as the increase in the interest rate that was perceived in the years after 2012, before it was possible to see a major governmental effort for maintenance of the lower real interest rate registered in the SELIC system, being one of the countercyclical measures adopted by the president to have the return of growth (Gentil; Hermann, 2017).

The failures committed by the choice of high exemptions and incentives through the renunciation of public collections (spending) are in line with the theoretical line of thought behind the mistake made with the fall in the interest rate in 2011. Incentives given by countries can leverage the economy and bring about an increase in income, as well as a product growth and the development of the nation, however, these measures must be applied in favorable moments, since the private agents will be followed by the good atmosphere of the economy so that the expectation of future profits is greater, that is, it would not be good to pass concessions for privatization in health, or increase private income by not levying taxes or even encourage consumption through various measures, if the conjuncture of the time was not favorable, so the private agencies will not carry out the investment, leaving for public initiative the responsibility to increase it.

After a survey of fiscal and monetary policies adopted by the PT government, it became clear that, in short, it had an orthodox character in these policies, focusing on the first Lula government (transition year) and the troubled years of the Dilma government. The continuation of the policies of the economic tripod, as well as the appointment of Meirelles and Palocci to important executive positions, bring confirmation of neoliberal traits in the Lula era, even though it has grown, helped by the commodity boom that affected all Latin American countries. The Dilma government's lack of boldness was also incapacitating to solve the fall in GDP growth coupled with a difficulty to approve proposals of a more heterodox nature, extending this framework until 2016, when she suffered Impeachment, even trying to pass reforms that were not compatible with the party's line of thinking.

### The 2015 Crisis and Post-Democracy

Even though it had neoliberal characteristics during the years 2003-2016, constantly linked to the most conservative parties, President Dilma suffered a coup devised by social sectors (FIESP, large banks, military estates, magistrates, large communication companies, among others.), whose desire for submission of the State to the imperatives of reducing the cost of labor and reducing the policy and the right to the logic of market profitability was revealed, especially under a scenario of a decrease in



the international price of mineral and agricultural commodities, than the government of Dilma had admitted, reaching the limit of a libertarian fanaticism.

This transition from the government to the PMDB seems contradictory, given that the *impeachment* carried out aimed at deepening the country in a wave of neoliberal policies, yet this antinomy can be understood as the result of a global tendency explained by Colin Crouch, considering that Brazil is in the state of post-democracy due to the neoliberal character presented by the public policies carried out. Crouch (2004) believes that even by increasing the number of formal democracies<sup>17</sup>, they may not prove to be democratic, given the example of the Kazakh case presented earlier. Still, in relation to this author, an analogy is used when referring to the above scenario. A comparison is made of modern democratic history with the equation of the second degree with a negative coefficient “a” (parabola with concavity going down), understanding the maximum value of the function as the democratic period and, from the point of inflection, a return to the undemocratic standards, concluding that tending the function to infinity is possible to have a return of negative values to the advance made in the previous centuries.

Of great importance, the origins of the coup do not go unnoticed. Starting with a political problem, Tavares (2018) explains that since the second Dilma government an intense austerity policy was implemented that subtracted the social security rights of the unemployed, widows, and small-scale fishermen through provisional measures, also deteriorating the investment capacity in areas of education and infrastructure. Other institutions parallel to the Central Government, such as the BACEN, the Public Prosecutor’s Office, and the Judiciary Branch, began to gain a voice, making it difficult for the party to play a role, making it difficult to carry out the plans made in the pre-electoral period. The people’s help in implementing these policies also proved impractical, given that PT’s presence on the left was eroding. Finally, Tavares affirms:

Neoliberal fiscal policy, the disengagement of the central bank and the regulatory agencies over social control, the growing autonomy of the institutions of control, and the growing repression against the non-partisan insurgent left were traces of post-democratic politics manifested in the PT government, under the deepening economic crisis in 2015, bounced as factors influencing the coup that stripped the party of the presidency (Tavares, 2018, p. 23).

Promulgated a few months after the coup in the Michel Temer government, Constitutional Amendment 95 takes over the public budget and establishes the New Fiscal Regime. The extreme nature of this measure is corroborated by its duration, with an extremely long period of 20 years for a policy of continuous austerity, a deadline rejected by international bodies such as the IMF. In addition to this venerable longevity, the measure does not provide for the interest and rollover of the Brazilian public debt, that is, its text is restricted to primary expenditure, impacting strongly on the country's development levels, as well as on income distribution. The standard does not legislate on extraordinary economic growth during the period referred to, nor does it take into account migratory processes or birth surges, that is to say, GDP growing 20% or the population reaching 500 million inhabitants, it will still have a restriction on public spending on the affected accounts.

The concern about this measure is not only in the field of economic and social consequences. The political apparatus is totally disfigured and democracy in Brazil continues the process elucidated by Crouch. The following governments will be responsible for the taxation of the payroll and constant compliance of the budget, abstaining from the electoral debate the party autonomies, which are put into practice through the discretionary spending, exempted, in turn, by the measure of the Temer government (Tavares, 2018).

## Conclusion

The research presented in this article sought to associate the fiscal austerity regime instituted by Constitutional Amendment 95/2016 in Brazil to the destinations of democracy in the country. Under a concept of democratic regimes that mobilizes the idea of state capacity (Tilly, 2007), conceives a mutual presupposition between human rights and democracy (Habermas, 1998) and comprises more than a strict method of choosing leaders, to understand arrangements of social participation (Santos; Avritzer, 2002), understanding that the index usually adopted to deal with the relationship between fiscal rigidity and democracy, proposed by Steuerle (2016), contains insurmountable theoretical limits, as well as macroeconomic deficiencies in their algebraic presentation.

Thus, a critical and theoretical interpretation of the fiscal regime inaugurated by EC 95/2016 in Brazil. Although it is unlikely that the spending ceiling implemented will stand up the full twenty years for which it is scheduled - given the social impact it will bring - it is noted that approval of the measure and its simple entry into force undermine the cost of human rights and reduce the influence of citizens on the decisions of governments, so that the measure fits in with the definition formulated by Colin Crouch (2004) for post-democracy: a formally democratic institutionalism is preserved but, in the absence of rights and means to exercise popular sovereignty, the regime perishes in favor of the primacy of mercantile forms, in particular, large corporations.

## Notes

1 The term “Tax State” is used by Schumpeter to refer to the Modern State.

2 A separate reading, which proposes that the relationship between taxation and democratization is mediated, in addition, by an examination of perceived benefits in relation to taxes paid, can be found in Ross (2004).

3 It is important to emphasize that even though it is a fraction, the behavior of the numerical value of the variable will be different from the usual, due to the decrease in the initial part of the IDF formula (subtraction with the number 1), that is, by increasing the denominator of the fraction, an amplification of the final value, rather than a fall.

4 “Revenues” and “interest payments” are accounts that do not require great difficulty in calculating, given the standardization of what is meant by Union revenue, as well as the payment of interest on public debt.

5 “Restoring Fiscal Democracy” from 2016, by Eugene Steuerle.

6 The term “fiscal rigidity” is more appropriate for the discussion of the index. The IDF is not an element for discussion about democracy, but rather about budgetary flexibility, already presenting the beginning of one criticism of the index.

7 Emphasizing to deal with the concepts seized in the project until then, with no aspiration to generalize the state of the art on contemporary democratic theories.

8 The two indexes would be complementary in the algebraic sense, since: .

9 It is necessary to consider *ceteris paribus* for the exercise of comparative static, however, the next stages of the context should be analyzed in relation to what has already happened in the actual example of EC 95.

10 During the electoral discussion period, the PT presidential candidate made clear that there would not be so many changes (changing the discourse made in old elections) and that most of the policies implemented in the FHC government would be continued in the next administration, transmitting this idea via “Letter to the Brazilian People” or even of the debates transmitted to the population.

11 It is recurrent in the current democracies for the government to worry about the market and orbit in a trade-off: population x capital (Schaefer; Streeck, 2013).

12 At the time, the highest interest rates of the standard (SELIC) were due to this erroneous understanding of the increase in the price level.

13 Due to several surpluses in previous years and a large exchange reserve that the country had, Brazil did not suffer directly from the crisis of 2008, even so, the economy still did not have a sovereign role in the world and if the crisis would have hit the economy of the US in a more severe way, Brazil would have been at risk of a major crisis. This was one of the reasons that caused the BACEN to suspend interest (Souza, 2008).

14 With the established management plan, Brazil ends a period of more than twenty years (1981-2006), where there was no central guideline of governments, since the current concerns of each era were to stabilize inflation (and the macroeconomic aggregates) with plans that never lasted more than two years, with the exception of the "Plano Real".

15 There was a reduction in world GDP from 2010 to 2013, as well as a drop in the growth rate of countries in the Euro Zone from 5.2% to 2.9%.

16 In 2004, the amount of the renunciation of the central government was equivalent to 24.2 billion Reais, in the period 2011-2014, the abdication of taxes starts at 181.3 billion, passing, at the end of the government, to around 250 billion (cf. Gentil; Hermann, 2017).

17 147 in 1988, 164 in 1995, and 191 in 1999.

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### Authors' Contribution

The authors worked together on every step of the research that supported this article. The scientific research took place within the framework of the Group of Studies of Fiscal Sociology - GESF, linked to the Faculty of Social Sciences of the Federal University of Goiás. Francisco Tavares coordinated the group and Pedro Garcia worked between 2016 and 2018 in a paid scientific research fellowship. Francisco Tavares was in charge of the theoretical survey concerning the relationship between democracy and taxation, as well as the Schumpeterian idea of Tax State, as well as the delimitation of the theme, the problem and the methodological path of the research. The discussion about the Fiscal Democracy Index and its limits was woven together by the authors, based on discussions that took place in the GESF. The approach of the economic policy of the Brazilian governments was elaborated by Pedro Garcia, as well as the research that associates the Habermasian notion of equiprimordiality between human rights and democracy and the idea of fiscal rigidity. The first wording of the text was written by Pedro Garcia, under supervision and based on the definition of the sections, themes and respective theoretical references established by Francisco Tavares who, from the first version, attributed the final changes to the text.

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