Idiosyncrasies of Intergenerational Transfers in Brazil

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Introduction

In contemporary societies, intergenerational transfers play an important role in redistributing resources from the working age population to children and the elderly (Lee, 2003). Overall, whereas the elderly receive substantial support through social insurance programs, family transfers are the main support for children (Lee, 1997; Lee, 2003). Despite unabated interest among researchers in issues pertaining to intergenerational transfers in developed countries, surprisingly little is known about these issues in emerging economies. Until the inception of the National Transfers Account project (NTA), except for very few studies (e.g. Lee 2000; Turra, 2001; Stecklov, 1997), research on intergenerational transfers had failed to consider the existence of specific institutional and socioeconomic settings in emerging economies that eventually affect the volume and direction of resources in these countries.

Brazil is one example of an important context for examining the role played by intergenerational transfers in more recently industrialized economies. Compared to other emerging economies, Brazil is distinct for combining a relatively large public sector with rapidly aging population (Turra & Queiroz, 2006) and amidst of the most extreme income inequalities in the world (Barros & Mendonça, 1995; Ferreira & Barros, 2003). Large literature document investigations of how resources are allocated among socioeconomic groups in Brazil (Camargo & Ferreira, 2002; Camargo, 2004), but these studies are mostly limited to public cash transfers, and only few have looked at reallocations by age. One exception is a comprehensive study (Turra, 2000) that combines several age schedules of public and family transfers to estimate both public and private transfers in Brazil based on the accounting system developed by Lee (1980, 1994 and 2000). Using survey and administrative data, the author shows that as in western developed countries, social programs to the elderly dominate public transfers in Brazil, while children's well-being depend largely on familial (private) allocation of resources. The results

were surprising because policy makers and others expected to find larger flows of public transfers directed to children in a developing country with young age structure (Caldwell, 1976; Goldani, 1999). Over the last years, other studies have emphasized the elderly-biased public policies in Brazil, but most of them have relied on partial analyses of the intergenerational transfer systems (Barros and Carvalho 2003; Camargo 2004).

In this chapter, we take advantage of the estimates produced under the NTA project to briefly describe the main features of intergenerational transfers in Brazil and draw attention to two specific idiosyncrasies that, in our view, makes Brazil a particular case among the other countries involved in the NTA project. First, we discuss on how intergenerational public transfers have seemed to privileged the elderly in detriment to children over the last decades in Brazil. Second, we stress the importance of looking at intergenerational flows, simultaneously, by age and socioeconomic groups, given the high inequality levels that have driven most of decisions regarding resource allocations in Brazil. We conclude by discussing the implications of these findings for a future research agenda.

General features of the economic life cycle in Brazil

In assessing the idiosyncrasies of intergenerational transfers in Brazil, it is helpful to start by examining broad features of the economic life cycle. Like in most industrialized populations today (see Mason et al. 2005), the Brazilian economic life cycle is characterized by three stages: a surplus stage interjects two stages of dependency. Figure 1 shows the normalized life cycle deficit (i.e. the difference between labor income and consumption at each age per average labor income at ages 30-49) in Brazil compared to other NTA countries. The Brazilian surplus stage lasts about 20 years, starting between ages 30 and 35 and finishing between ages 50 and 55. The early start of the old-age economic dependence follows the emergence of a national social

security system that has been marked by the lack of a minimum retirement age and the absence of more strict rules linking benefits to contributions (Queiroz, 2008).

The excess of consumption over labor income at childhood and old ages are financed through net public transfers, net private transfers (family transfers), and asset reallocations. In Brazil, both public and private transfers are the main funding sources for consumption during the dependence stages. Figure 2 shows that inter-vivo transfers pay entirely for children's and elderly's consumption. However, private transfers account for large proportion of the consumption needs of children, while public transfers represent, on average, less than one quarter of the consumption of children. In contrast, net public transfers respond for almost the entire consumption needs of people aged 65 and above, while net private transfers are negative but small for most of the ages, meaning that on average, above age 65, private transfers made are slightly larger than private transfers received.

Figure 3 shows the distribution of private transfers over the life-cycle. The results show that intra-household transfers are by far the largest component in childhood ages, representing more than 98% of the net private transfers until age 15. In addition, most of the resources allocated within the household come from adults, particularly those at ages between 35 and 65.

Figure 4 depicts the distribution of public transfers received over the life-cycle. Not surprisingly, public health is the main source of consumption at ages below 5, accounting for about a quarter of all public transfers received, including those that are non-age related (defense, for example). Between ages 5 and 15, public education becomes the largest age-related component, representing about 40% of the public transfers received. Among the elderly, as expected, social security and health account for all of the age-related public transfers. Together, they represent 90% of the total received at age 70, for example, and about 90% of this total is

due to pensions. Most of public out-transfers come from the working age population (results not shown). This pattern is not surprising, given that these are exactly the ages when individuals reach the highest life cycle surplus (i.e. difference between labor income and consumption) and thus, when they are most able to pay taxes and make contributions to the public sector.

Elderly-biased public transfers in Brazil

In general terms, the reallocation system in Brazil is very similar to other countries represented in the NTA project. A closer look, however, indicates one idiosyncrasy about transfer systems in Brazil that needs further attention: compared to other populations, Brazil has much larger flows of public transfers directed to the elderly relative to children. Figure 5 shows the ratio of social security per-capita expenditure (average per-capita value between ages 60 and 80) to public education per-capita expenditure (average per-capita value between ages 7 and 18) is greater than eleven in Brazil. Furthermore, the Brazilian ratio is more than ten times the one for the U.S; almost eight times the one for Japan; between 4.0 and 7.5 times larger than the ratios for selected European countries and somewhat larger than the ratio in Uruguay (1.64 times larger) and Chile (2.65 times larger) - both Latin American countries that share, to some extent, similar social, economic and institutional arrangements with Brazil.

Although this pattern of elderly-biased public transfers seems to also prevail in other populations in Latin America, it is idiosyncratic to Brazil for two reasons. First, although Brazil is rapidly aging it has one of the youngest age distributions in Latin America (United Nations, 2005), which should imply in a relatively much larger volume of resources directed to children. Second, Brazil is a very unequal country, income inequality has been persistent over time and only larger investments in the youth could burst the intergenerational transmission of inequality.

Together these two factors lead to a warning sign: in order to keep the economic wellbeing of future elderly generations in a rapidly aging population, massive investments in children should be in place, particularly in children from families that have no resources to invest in human capital at efficient levels. Therefore, understanding why the public transfer system have privileged older age groups in Brazil is imperative to cast light on possible ways of avoiding a dead-end path for economic growth and larger burden for future generations.

The literature provides a few theoretical models that may help understand why a developing economy with such young age structure has such large public transfer flows compared to similar economies. Preston (1984) argues that the increasing relative share of the elderly population combined with their political power helped to increase public expenditures on programs directed to the old people in the U.S. Becker & Murphy (1988) developed a theoretical model based on the intergenerational equity, arguing that the state should intervene in private relations to create a more efficient allocation of resources. Thus, they hypothesize that current public expenditures directed to the elderly compensate their efforts during prime-age to the development of public education system and the accumulation of human capital of future generations.

However, historical evidence points out that the rise of public expenditures on education in Brazil started much later than in other nations. For instance, Bommier et. al (2004) show that in the U.S., public expenditures on education started by the end of the XIX century and the emergence of the public pension system is around the 1930s. The consolidation of the Brazilian public pension system occurred after the Second World War (Queiroz, 2008), while the public education system became universal only recently (Rios-Neto, 2005), which provides some evidence against the Becker & Murphy hypothesis in the Brazilian case. This argument is clear

on Figure 6, which shows coverage rates of education and social security in Brazil since the 1960s. Almost 90% of the elderly population was covered by social security in the early 1990s, but less than 80% of children were in school by then. Increases in education coverage are a recent phenomenon in Brazil (Almeida, 2001)

The development of the public transfer systems is closely related to the model of economic development adopted in Brazil during the second half of the XXth century. Filgueiras (2005) and Draibe (2004) argued that the expansion of the Brazilian social welfare system came along with the industrialization process, and both coordinated by the federal government. Thus, the evolution of the social protection system has mainly concerned the relations between capital and labor. In the first stages, social policy in Brazil was biased to the urban areas and formal labor market (Filgueiras, 2005)[1]. Filgueiras (2005) argues that this helps to explain why social protection existed only for workers in the modern industrial sector and civil servants. According to Draibe (2004), the expansion of the social welfare system depended on the productive structure and the political weight of the professional category. Also, the predominance of the industrialization goals has limited the emergent social protection system to the urban salaried workers. Rural workers were excluded from labor and union regulations, as well as of the pension system until the 1970s (Draibe, 2004). Lastly, Draibe (2004) argues that the economic development based on import substitution (industrial bias) have raised the importance of the social security system in the Brazilian Welfare State, neglecting investments on education and health. In this sense, the consolidation of social public expenditures in Brazil was important to the economic development of the country in a period of rapid transformations, but also worked as a form of social control and political legitimation (Draibe, 2004; Rios-Neto, 2005).

[1] Brazil developed and matured its social states under what has traditionally been considered as a populist model of development and political administration

It is important to note that none of these authors have discussed why the social security system became virtually universal in the last decades, expanding the coverage of contributory benefits and providing non-contributory benefits for workers in the informal sector, while a large proportion of the youth population remained out of school until very recently. This question still needs further examination and can only be addressed with historical evidence.

The role played by the socioeconomic dimension

Despite structural changes, socioeconomic inequality has persisted in Brazil over the decades and remains higher than the average level in Latin America (Barros et al. 2000). Recent research has pointed to a number of factors that might help explain this pattern. For example, inequalities in the distribution of education, increases in unemployment and informality (Barros and Ferreira 1999), high rates of return to education and high variance in schooling (Lam and Levison 1992; Menezes-Filho 2001). Although the labor market is not per se a generator of income inequality, it also plays an important role by transforming worker's differences, such as education and experience into income inequality (Barros and Mendonça 1995).

Therefore, contrary to other countries where the degree of heterogeneity within age groups may be much less significant, in Brazil, looking at the mean intergenerational flows by age may hide some important peculiarities of resources allocation. A good example of the implications of SES differences in the debate on intergenerational equity in Brazil was provided by Turra & Queiroz (2006) in an earlier article published under the NTA project. The authors analyzed the intergenerational transfers systems in Brazil by SES and found distinct patterns of private and public transfers for different subgroups defined according to the educational level attained by the head of the household. They showed that private transfers are very important for children from wealthier families whereas children from less well-off families rely more on public

transfers, mainly public education. On the contrary, the authors show that elderly consumption, for any socioeconomic level, is heavily financed by public transfers (social security and health mainly).

The consequences are clear: large amounts of public resources are transferred to the elderly every year, as it was discussed in the previous section, implying in a severe constraint to increasing transfers to children, as argued before, but to poor children in particular. Why have the intergenerational transfers in Brazil evolved to such pattern? Turra and Queiroz (2006) speculate that this pattern is the result of the unequal political power coming from age and wealth. High-SES adults, who form the group eventually responsible for deciding how to spend most of the public resources, face increasing expenditures with children as water over the dam. This is true not only because they cannot benefit themselves from larger transfers to young ages, but also because their children depend largely on private transfers and thus, do not need enhanced public in-kind transfers in order to become highly productive adults. On the other hand, while low-SES adults benefit from sharing the same social insurance programs with high-SES adults (despite getting lower payments), low-SES children are too young to have a voice in the political arena. In addition, since low-SES children do not share the consumption of public resources with higher SES children, they are less likely to be lobbied by wealthier adults and thus, more likely to remain in poverty.

There is still a lot to be learned from the simultaneous examination of age and SES in the studies of intergenerational transfers in Brazil. As Rios-Neto (2005) and Turra and Queiroz (2006) pointed out, one cannot provide definitive conclusions about the allocation of resources across age and SES without making use of historical estimates and accounting for social mobility across the life cycle.

Discussion

The findings and arguments presented here support the idea that intergenerational transfers, both private and public, are the main sources of consumption for children and the elderly in Brazil. We also show that private transfers (intra-household) fund most of youth consumption, while public transfers (pensions and health) fund elderly consumption needs. While we have not mentioned in this paper, preliminary results, not shown, indicate that inter-age allocations (savings) play only a secondary role in the Brazilian economic life cycle and the allocation of resources across cohorts is still the major source of support for the dependent age groups.

We have stressed two main idiosyncrasies of intergenerational transfers in Brazil. The first one is the much larger public expenditures to the elderly relative to children; a pattern that has no parallel in the NTA project. The second one is the unequal distribution of private and public transfers across socioeconomic levels within age groups, particularly the importance of private transfers for the consumption of wealthy children and the universal role played by public transfers in financing elderly consumption of all socioeconomic levels.

Our results indicate two main areas of future research.. First, it is important to investigate additional issues of the macroeconomic aspects of intergenerational transfers in Brazil, both private and public. . In a context of a rapidly aging population, and the high concentration of expenditures on the elderly, there is a need to explore, more systematically, the historical pattern of resources allocations between the youth and the elderly in the country. It is fundamental to construct a long series of public transfers, at least for education and public pensions, to better understand the first results discussed in the paper (elderly-biased transfers). The use of historical

data, longitudinal data, and careful projections should provide further insights into how intergenerational transfers in Brazil work and how they will evolve.

Also, it will be worthy looking at the relation between the "elderly-children pattern" and both period and cohort-based measures of economic wellbeing such as poverty rates by age, socioeconomic inequality, and transfers between cohorts. The historical pattern of these measures might help policy-makers to design more efficient intergenerational transfers programs to provide larger investments in children's human capital. At the same time, it remains necessary to determine how much of the inequality in the distribution of public resources across generations is explained by between age groups and within age groups (between socioeconomic groups) inequality. The reverse question focusing on the age component of socioeconomic inequality is also relevant for guiding public policies in Brazil.

The macro picture of intergenerational transfers in Brazil also raises very important questions on the behavioral (micro) implications of public and private arrangements. The size of the public pension system, for example, leads to two main issues. First, the role played by the large transfers to the elderly on their savings behavior over the life-cycle, and second, their impact on labor supply. The discussion presented before indicates that the current system of public transfers in Brazil reinforces the elderly dependency on the public sector to finance their consumption needs hampering economic growth and increasing the pressure on younger cohorts and on the sustainability of such programs to future generations.

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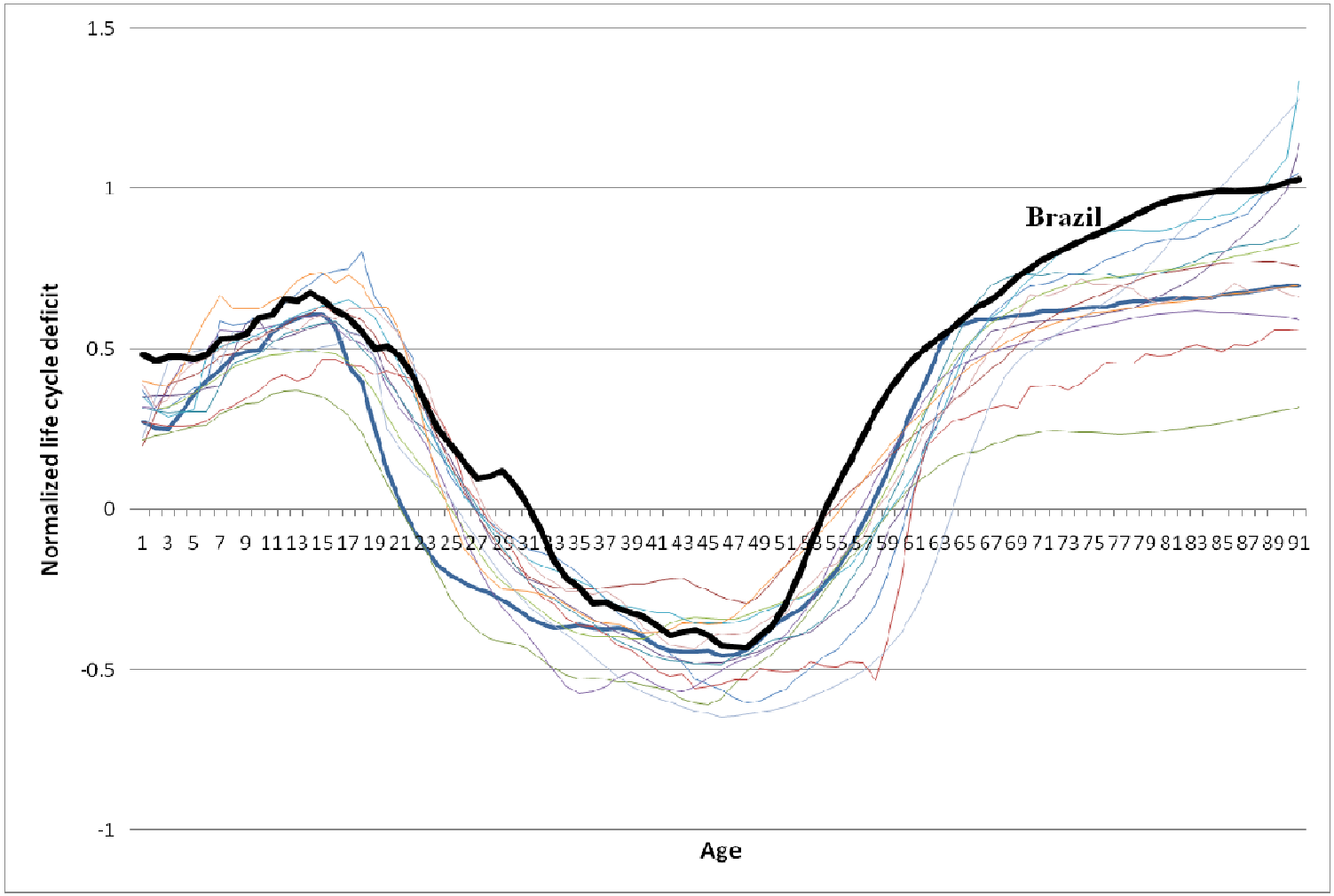
Figure 1 - Normalized* Life Cycle Deficit in Brazil (1996) compared to other NTA countries



*Difference between labor income and consumption at each age per average labor income at ages 30 to 49

Figure 2 - Net public and private transfers (as a proportion of consumption) by age, Brazil 1996

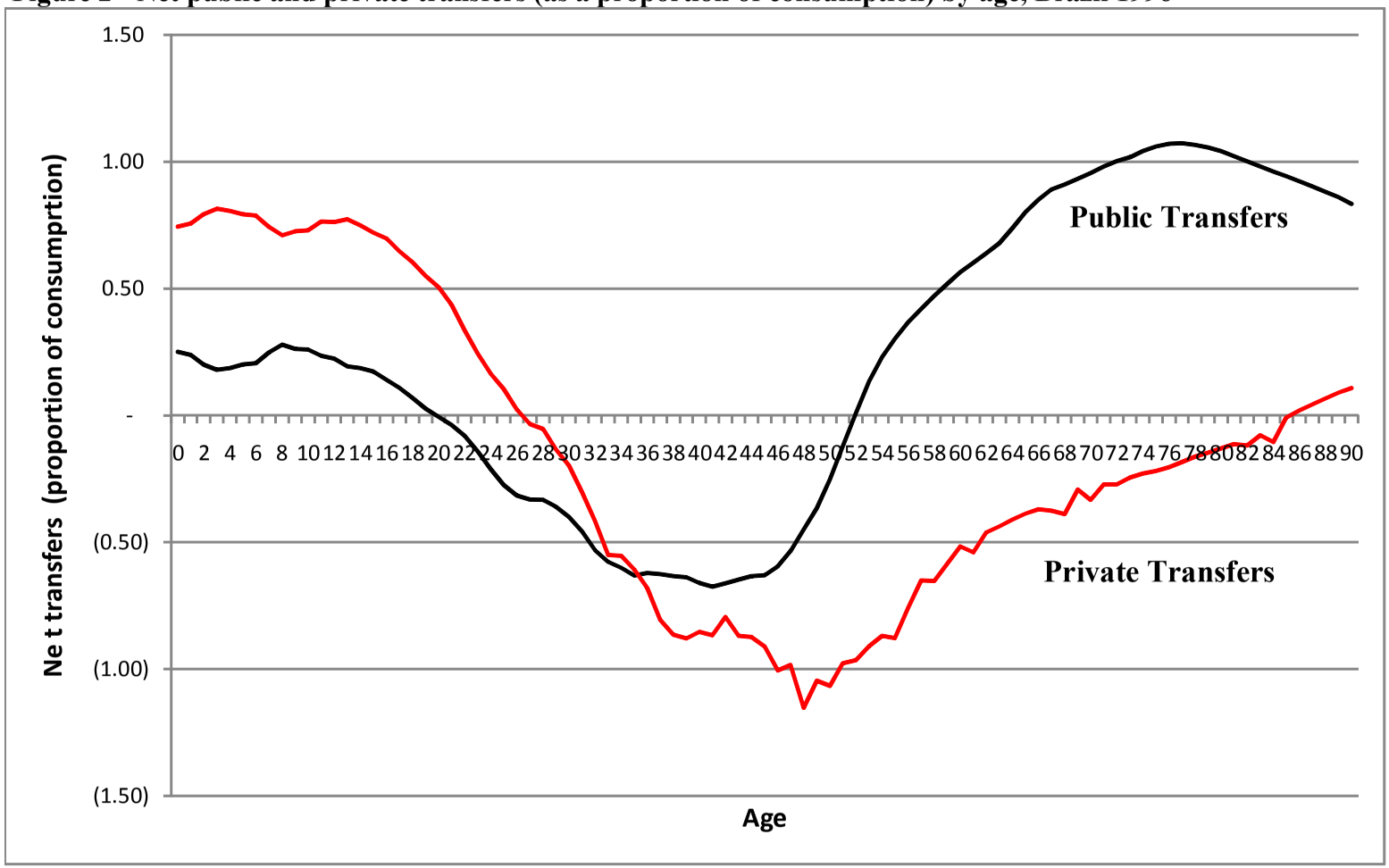


Figure 3 - Intra and Inter private transfers by age (R$), Brazil 1996

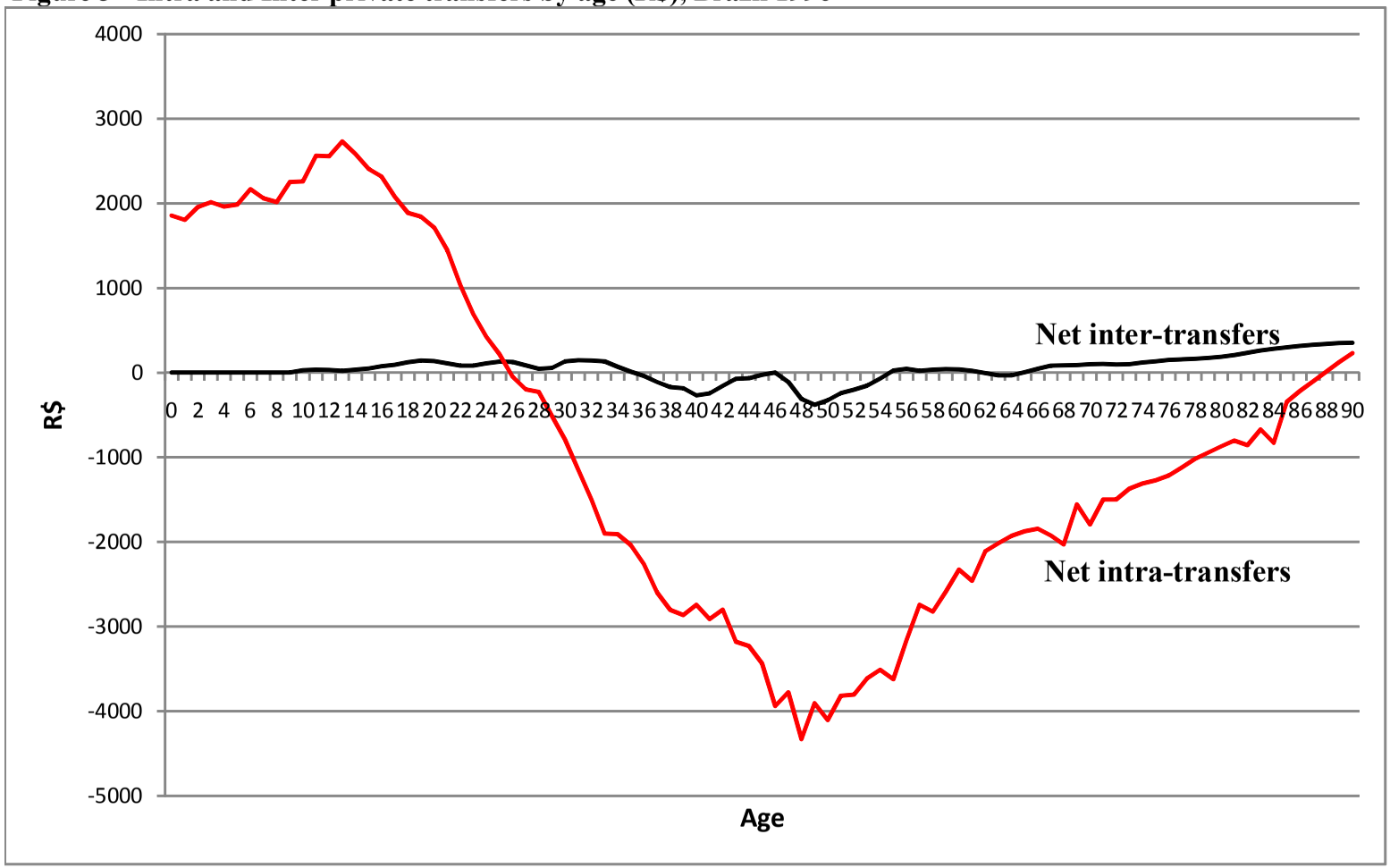


Figure 4 - Proportion of public transfers received by source, Brazil 1996

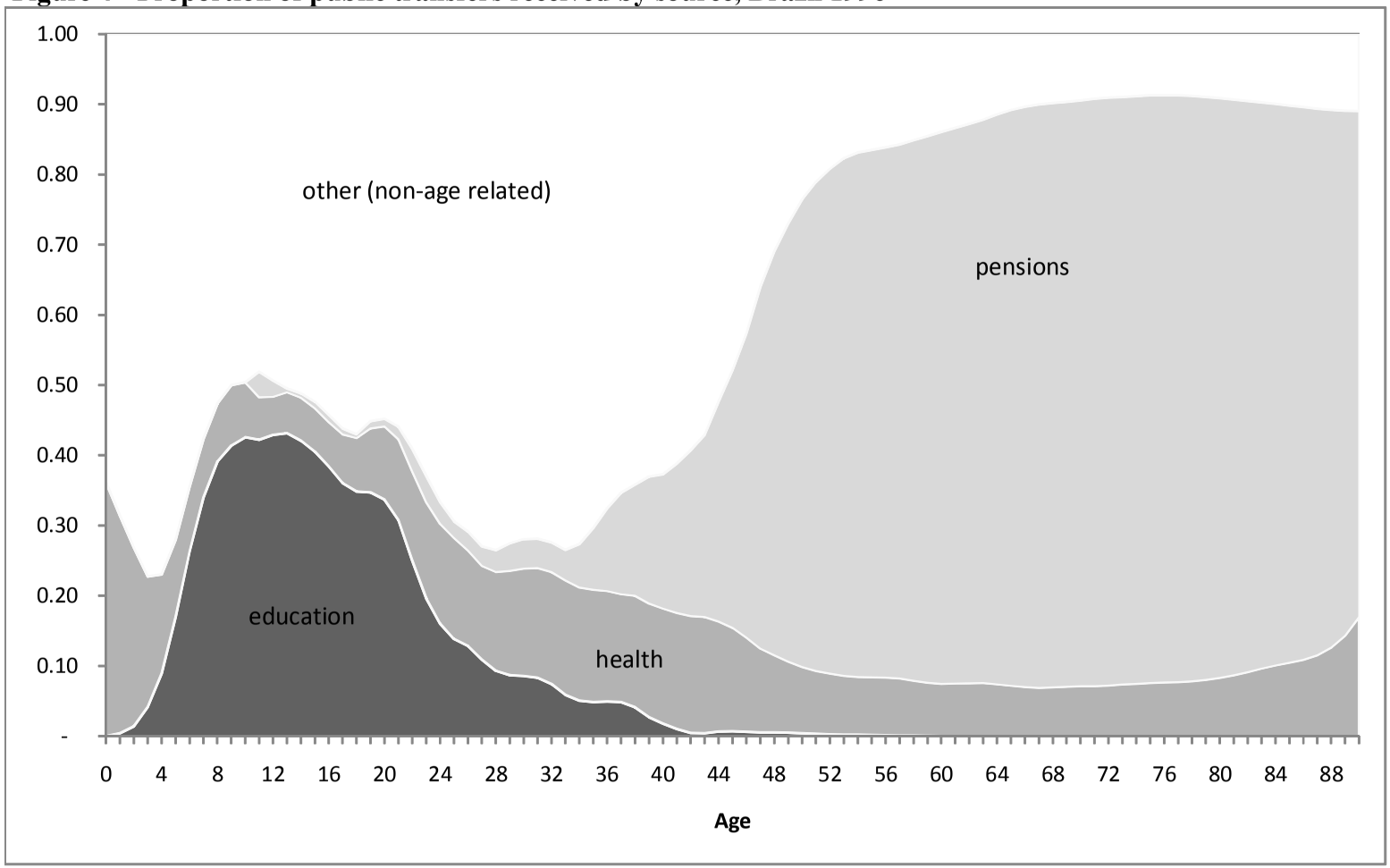
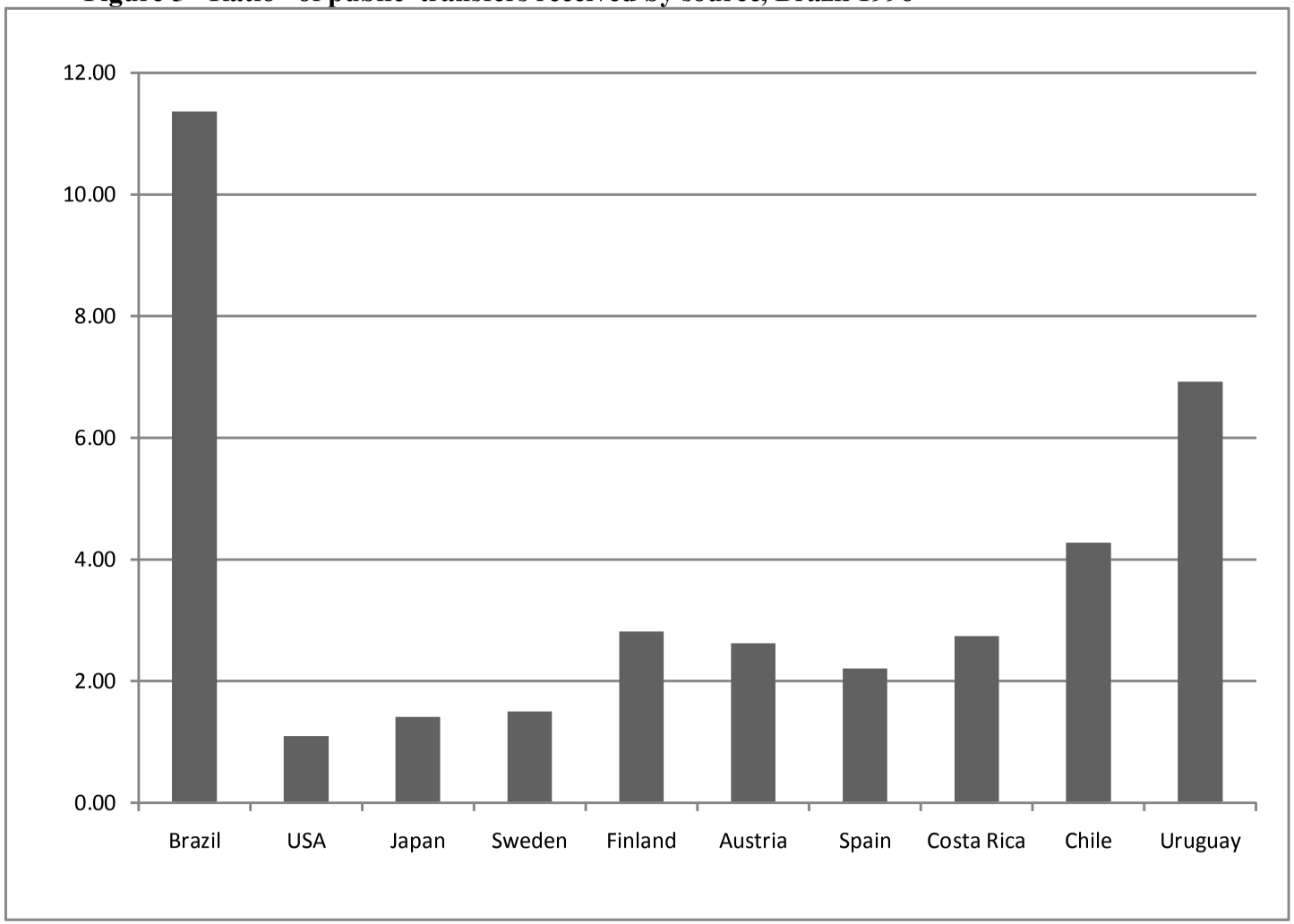
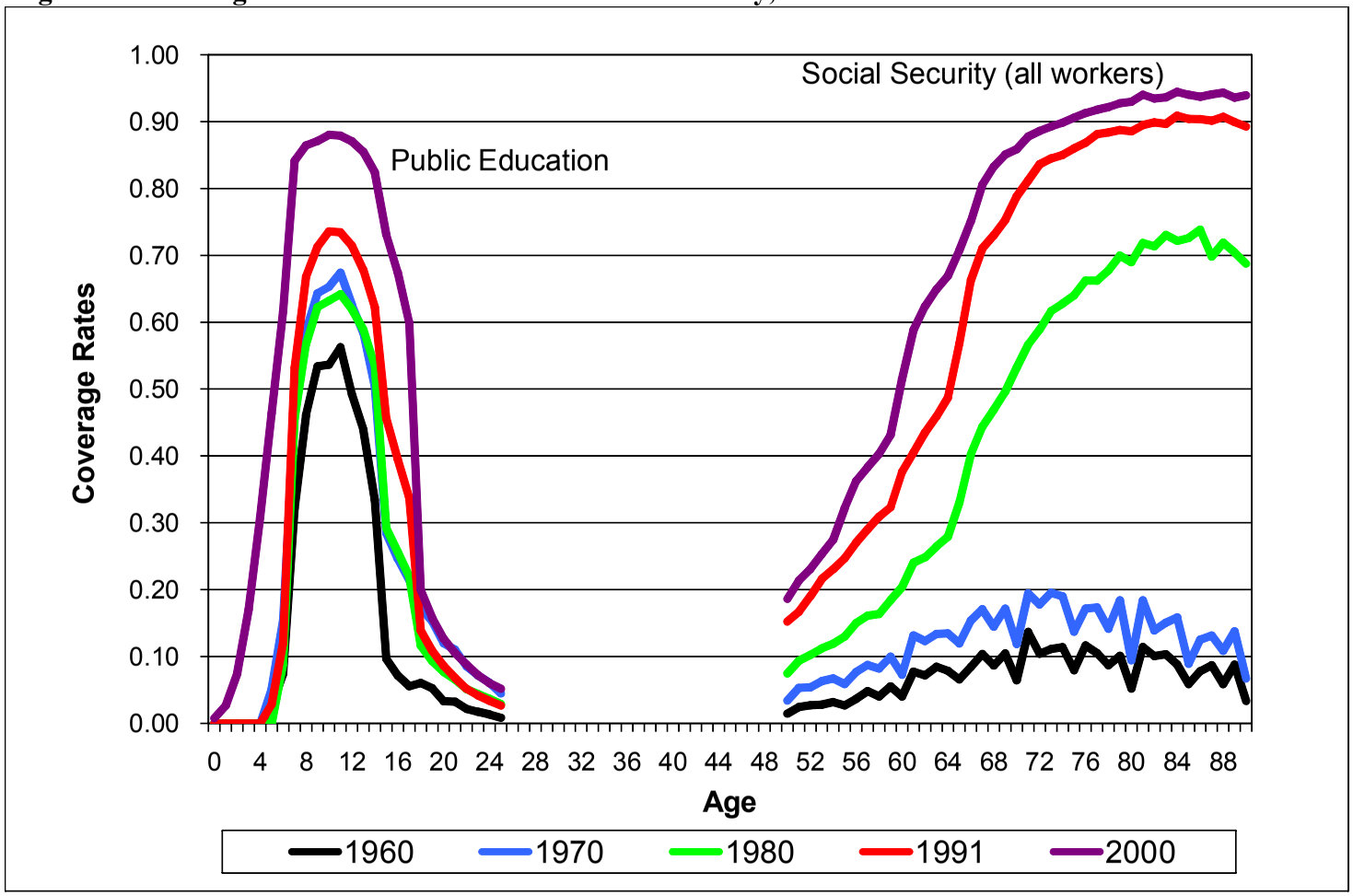


Figure 5 - Ratio* of public transfers received by source, Brazil 1996



*Average social security per capita expenditure (ages 60 to 80) divided by avereae education per capita expenditures (ages 7 to 18)

Figure 6 - Coverage Rates for Education and Social Security, Brazil 1996



Source: census data