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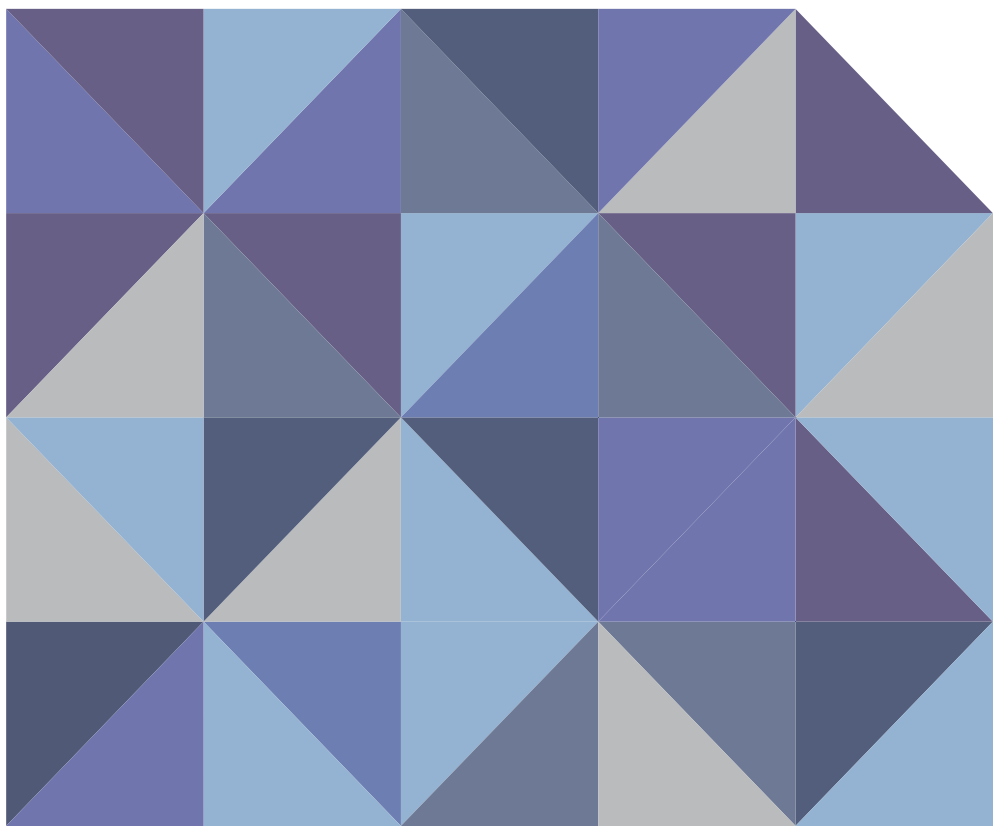
A proposal for the unification of social protection benefits for children, youth and those vulnerable to poverty

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A PROPOSAL FOR THE UNIFICATION OF SOCIAL PROTECTION BENEFITS FOR CHILDREN, YOUTH AND THOSE VULNERABLE TO POVERTY[1]

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Social protection policy in Brazil is a historically built patchwork of programmes that pay different values to people in the same situation, leaves many unprotected (in particular, 17 million children) and is fraught with duplications and other inefficiencies. This paper proposes an approach through which all transfers to individuals vulnerable to poverty and children can be brought together within a single framework. The budgets of the *Bolsa Família*, *Abono Salarial* and *Salário-Família* programmes and the child income tax deduction together add up to BRL52 billion (about USD15 billion). With these resources, it is possible to propose a new transfer programme based on a universal child benefit and a targeted extreme poverty grant that will be twice as effective at reducing poverty and inequality as the four existing programmes.

Keywords: social protection; universal child grant; *Bolsa Família*; *Abono Salarial*; *Salário-Família*.

1 INTRODUCTION: PATCHWORK SOCIAL PROTECTION

Social protection in Brazil is an incongruous patchwork of incoherent programmes. It comprises different norms, laws, programmes and initiatives that are a far cry from a coherent whole. Different programmes pay different values (sometimes wildly different) to people facing essentially the same social risks; different criteria are used to assign benefits to people in similar positions in the income distribution based on small differences in income or other characteristics. Worse of all, this incongruous patchwork as a whole is only slightly progressive and has very modest effects on the income distribution. This is especially troubling when we consider that almost 15 per cent of Brazil's gross domestic product (GDP) was spent on social protection in 2017.

The most important reason for this state of affairs is that social protection in Brazil, as in most other countries, is a historical construct. Different programmes were put in place over time to address one or another social risk. Often, these initiatives were the best that could be done at the time they were created; they were a good solution at the time for the problems they were meant to solve. On occasions, such as when the 1988 Constitution was written, systems with greater coherence were proposed and implemented.

Nevertheless, the relentless passage of time changes any nation, its society, its economy and its government. What was once a good solution can become a bad solution or no solution at all. The build-up over the years of partial and increasingly outdated solutions to social problems has created the incoherent and often self-defeating social protection policy that Brazil counts on today. The result is a patchwork of programmes that are at odds with each other and that have a small distributive impact given their volume. Children, particularly poor children, are especially shortchanged by the Brazilian social protection mishmash.

Many have tried to provide *ex post* justification to create a coherence that does not exist. Often we hear that there is no problem in providing a benefit through the *Benefício de Prestação Continuada* (BPC) that is five or six times larger than the amount a family would have received through *Bolsa Família* if its oldest member were a couple of years younger. Why? Because the former is income substitution, while the latter is an income complement. This makes no sense when we consider that a family living in the *Caatinga* with no land and little water faces much greater challenges to making a living than a 65-year-old man in São Paulo.[5]

The unescapable fact is that Brazilian social protection policy is in need of urgent reform to become a coherent and transparent response to the social risks faced by its population. Let us provide a little further detail on the incoherence of the social protection systems.

Brazil has different retirement systems with different retirement ages and very different benefits, all of which depend on whether an individual worked as a civil servant, a teacher, a policeman, in the private sector, in agriculture or in a plethora of other positions in the labour market. There are two unemployment insurance programmes in Brazil—the *Seguro-desemprego* and the *Fundo de Garantia por Tempo de Serviço*—which do not communicate with each other and pursue objectives that are often at odds with each other. For Brazilians suffering from physical or mental disability there is a profusion of social insurance, social assistance and tax benefits which—perhaps predictably—use different definitions of disability, pay wildly different values to people with similar disabilities, do not adequately protect those with the most severe disabilities, and are globally regressive. Finally, social protection for children as well as families vulnerable to poverty is equally fragmented. *Bolsa Família*, *Salário-Família* and the income tax child deduction all target children and pay families for their upkeep. But as usual in Brazilian social protection, they pay different amounts through different mechanisms and under different conditions. As for payments to individuals vulnerable to poverty, *Abono Salarial* and *Salário-Família* target low-wage individuals, and *Bolsa Família* targets low income. The definition of income, however, varies between the three programmes, and *Abono Salarial* and *Salário-Família* both use a very poor definition of need, which is low pay in the formal labour market (even though 40 per cent of the Brazilian labour market is informal).

Social security reform and social assistance to elderly people has been addressed in many publications in Brazil, such as Giambiagi and Sidone (2018) and Tafner, Botelho, and Erbisti (2015). Social protection for people with disabilities is far too complicated, involving such different things as the severity of the disability, labour market insertion, income and age.

Social protection for those who lose their formal jobs will also be dealt with elsewhere. This means that in this text we will analyse in depth and propose a complete reform only of social protection for children and individuals vulnerable to poverty. So how will we proceed?

In the following section, we will discuss the programmes and benefits that compose the social protection universe for our target population and verify how much money we have to spend. Our premise will be that, respectful of fiscal responsibility, we cannot spend more than we spend today. Nevertheless, if one day there are more resources available, and a political decision is made to spend them on children or poor people, the framework we put forth must be sufficiently flexible for these resources to be destined to those in greatest need. Furthermore, it must also allow for future demographic changes such as a reduction in the number of children and an ageing population.

In Section 3, we will look in detail at each programme and its flaws. Yes, we must look carefully at the flaws, lest we repeat them in our design. In Section 4, we will look at the distributive aspects of the four programmes for children and those vulnerable to poverty: how each of them affects inequality and poverty. We will show why today's system is so far from being as progressive as it could be.

In section 5, we will finally unveil our proposal for the new social grants to be incorporated into the *Bolsa Família* framework, which we consider the most effective design to direct scarce resources to those who need them the most. Those who wish to understand only the proposal can go straight to this section.

In Sections 6 and 7, we will analyse in further depth legal and some distributional considerations. Section 8 will deal with the perils of implementation. We should not forget that a universal child grant married to an anti-poverty grant faces considerable legal, operational and budgetary hurdles. Section 9 concludes.

2 SOCIAL PROTECTION FOR CHILDREN AND FAMILIES IN DANGER OF FALLING INTO POVERTY

We define as social protection any recurring payment which is a response to a given social risk. We do not care from where the money comes, as long as it is public money. In our case we have resources that come from the General Federal Budget, the Social Security Budget, from tax expenditures (off budget) and from the *Fundo de Amparo do Trabalhador* (FAT).[6] The social risks to which social protection responds are even more varied and range from unemployment to old age, passing through the costs associated with the arrival of a child in a family. We will not consider as social protection the provision of services or in-kind transfers such as child protection services, counselling, or training for the job market. This is not because we consider these services less important than monetary payments—on the contrary, we consider them fundamental and also recognise that they are poorly provided by the State in Brazil—but, rather, that the objective of this text is the (relatively) low-hanging fruit of restructuring said monetary payments.

We will define 'programme' in an equally flexible and pragmatic way to refer to a set of payments which follow the same logic, are implemented by the same agency (or set of agencies for decentralised programs) and defined in the same law. The most important

social protection programmes in Brazil are, in order of size of budget: the General Regime of Social Insurance (Brazilian Social Security), the Specific Social Insurance Regimes (for public employees), unemployment insurance, the BPC (one minimum wage paid to elderly people or those with disabilities whose families are incapable of providing for them), *Bolsa Família*, *Abono Salarial*, the income tax child deduction[7] and *Salário-Família*.

The programmes in our sights are *Bolsa Família*, *Abono Salarial*, the income tax child deduction and *Salário-Família*. Among these programmes, the *Abono Salarial* is something of an outsider. It is not paid to children (or more exactly, to families with children). It is paid out of FAT resources that also pay for unemployment insurance and is also limited to those employed in the formal market. Why include the *Abono Salarial* and not unemployment insurance or the *Fundo de Garantia do Tempo de Serviço* (FGTS)? The reason is that while neither unemployment insurance nor the FGTS have an income criterion for defining who is eligible, the *Abono Salarial* is paid only to those making between one and two minimum wages in the formal labour market. This means that poverty and vulnerability to poverty derived from low pay are among its most important reasons for existing.

Table 1 shows how much was spent by each programme in 2017. Some of the numbers are estimated with a degree of imprecision.[8]

TABLE 1
Main programmes for children and those vulnerable to poverty in Brazil (2017)

Programme	Beneficiaries (millions)	Budget (BRL billions)	Budget (% of GDP)	Social risk
Bolsa Família	43.300	29.05	0.44	Poverty and childhood
Abono Salarial	20.924	17.35	0.26	Poverty (or low pay)
Income tax child deduction	10.616	4.36	0.07	Childhood
Salário-Família	5.259	2.00	0.03	Poverty (or low pay) and childhood
Total	80.099	52.76	0.80	Poverty and childhood

Notes: 1. Values for *Bolsa Família* are from *Ministério do Desenvolvimento Social* (n.d.).
2. The income tax child deduction numbers are the result of multiplying the dependent person deduction in the income tax data by the proportion of children among all dependents among those with incomes above the income tax thresholds as reported in the *PNAD Contínua* household survey.
3. *Abono Salarial* figures are estimated directly using the *PNAD Contínua*.

Source: Ministério do Desenvolvimento Social (n.d.); *Receita Federal* (n.d.); *Pesquisa Nacional por Amostra de Domicílios* (PNAD) *Contínua* (2017)/IBGE (n.d.); Labour Secretariat of the Ministry of Economics.

All the above programmes refer to the risks associated with childhood and vulnerability to poverty. *Abono Salarial* and *Salário-Família* define vulnerability to poverty as low pay in the formal labour market. We consider this a very poor definition of vulnerability to poverty, but nevertheless they are anti-poverty programmes. In the case of *Abono Salarial*, an ancillary objective is the incentive of a virtuous trajectory in the formal labour market.

We chose this set of four programmes not only because it is relatively easy to design a broader social protection framework for addressing the two risks these programmes refer to, but also because the two risks are so intertwined as to make addressing the risks of childhood difficult without addressing poverty. Not only are children strongly over-

represented among poor people (almost 70 per cent of children are in the lower half of the income distribution, and more than half are in the lower third), but also the presence of children in a household is one of the most significant determinants of its poverty status. A more practical argument is that social protection for children will be of limited use to them if they live in a household so poor that the adults will be compelled to use the programme transfers for general household consumption.

Finally, the importance of investing in children has been demonstrated by Heckman (2006) and others, which amply justifies the prioritisation of investments in children from a cost–benefit perspective.

3 ANALYSIS OF INDIVIDUAL PROGRAMMES

This section is devoted to analysing each of the four programmes in detail. We will proceed in order of budgetary relevance.

3.1 *BOLSA FAMÍLIA*

Bolsa Família is the most recent of the large social protection programmes in Brazil. Although it is relatively modest in budgetary terms, costing a mere 0.37 per cent of GDP, its reach is quite impressive: almost one third of Brazilian families can claim *Bolsa Família* benefits. The programme was created in 2003 from the unification of the existing *Bolsa Escola Federal*, *Bolsa Alimentação*, *Programa de Erradicação do Trabalho Infantil*, *Cartão Alimentação* and *Auxílio Gás*.[9] Its legal basis is Law No. 10.836/2004.

The *Bolsa Família* benefit structure is somewhat complex, but not that hard to understand. There are four benefits linked to the presence of specific individuals in the household: the Child Variable Benefit is paid to poor families with children aged 0–15; the Pregnancy Benefit is paid to pregnant women; the Nursing Benefit is paid to women with children of breastfeeding age; and, finally, the Adolescent Variable Benefit is paid to adolescents aged 16–17. The value of the first three benefits is BRL41 per month, and the value of the Adolescent Benefit is BRL48 per month. The eligibility threshold for all four is BRL178 per capita.

TABLE 2
Bolsa Família benefits (in BRL)

Benefit	Value	Eligibility (per capita income)	Beneficiary
Child variable	41	178	Poor children (0–15)
Nursing	41	178	Poor breastfeeders
Pregnancy	41	178	Poor pregnant women
Adolescent variable	48	178	Poor youth (16–17)
Basic	89	89	Extremely poor families
BPS	Gap	89	Extremely poor families

Source: *Ministério do Desenvolvimento Social* (n.d.).

There are also two benefits that depend only on per capita income. The first is the Basic Benefit, whose value is always BRL89 and is paid to all families who declare an income in the federal government's Single Registry for Social Programmes (*Cadastro Único para Programas Sociais do Governo Federal*) indicating they are in extreme poverty. This is a per family benefit and not a per capita benefit—all extremely poor families receive BRL89, regardless of how many children they have. The second is the *Benefício de Superação da Extrema Pobreza* (BSP), which is also paid to families in extreme poverty but differs from the basic benefit in two ways: first, it is a per capita benefit paid in proportion to the number of household members; second, it closes the poverty gap, and thus its value depends on the family's per capita income.

Bolsa Família led to the development of the instrument that today allows for the identification of poor people in Brazil: the *Cadastro Único*. While it certainly has its limitations and imperfections, today the *Cadastro Único* is quite capable of identifying households according to their real poverty situation. This frees us from relying on very poor mechanisms for identifying poverty such as income from the formal labour market.[10] The *Cadastro Único* is used for various smaller benefits in addition to *Bolsa Família*, such as the Social Energy Tariff, the Cistern Programme, and free public transportation for people with disabilities. It will also be crucial for our unification proposal.

The *Cadastro Único*'s most significant limitation from our point of view is that it is limited to poor people and those who are highly vulnerable to poverty. Only 38 per cent[11] of Brazilian families are in the *Cadastro Único*. Entering the *Cadastro Único* is not a straightforward process for any family, as this administrative registry comprises 21 different questionnaires and must usually be done at the local social assistance office and not online. In principle, the *Cadastro Único* is updated every two years to ensure that a family's living conditions have not changed. Online checking with other registries such as lists of employees in the formal labour market is also undertaken regularly. Maintaining the *Cadastro Único* is one of *Bolsa Família*'s largest hidden costs, since the time spent by social workers updating the registries of 28 million families is time they are not spending protecting children from household abuse or rehabilitating former drug users.

Bolsa Família is paid either through a monthly deposit to a bank account or through a special ATM card issued exclusively for the programme.

3.2 WAGE ALLOWANCE (*ABONO SALARIAL*)

The *Abono Salarial* is a benefit equivalent to one minimum wage paid annually to formal workers earning between one and two monthly minimum wages. The legal basis is the 1988 Constitution, article 239, item III.

The *Abono Salarial* is paid for using resources from the FAT, which was also created by the 1988 Constitution. Its information system uses the declarations made by employers called the *Relação Anual de Informações Sociais* (Rais). Payment is annual, going from the second semester of each year to the first semester of the following year. Operational details are decided on by the FAT Deliberative Council. The *Abono* is paid for by the *Caixa Econômica Federal*, which is the same bank that pays *Bolsa Família*, but the two payments are in no way coordinated.

The *Abono* is doubly indexed to the minimum wage, since both the value (one minimum wage) and the eligibility criterion (wages of between one and two minimum wages) are indexed to the minimum wage. This means it increases more than linearly with increases in the minimum wage.

In 1988, *Abono Salarial* was an understandable, if far from ideal, policy. There was no *Bolsa Família*, there was no *Cadastro* Único, and there was no way of knowing who was in dire poverty and who was not. Nobody imagined that only 13 years later the government would begin to develop an instrument that took into consideration informal earnings and used the family as a unit of analysis for welfare measurements. In addition, the minimum wage was less than half of what it is today.

Thirty years later, things have changed. Today's minimum wage is more than double that of 1988; it is close to 60 per cent of median income, which puts it in line with most minimum wages in Organisation for Economic Co-operation and Development (OECD) countries. Most importantly, today we have a means of ascertaining need using the correct concept— all income in a household.

This all means that *Abono Salarial* has become a totally unjustifiable policy, a zombie programme roaming aimlessly around the Brazilian policy landscape. Even less justifiable is the fact that it counts on a budget that is about 80 per cent of that of *Bolsa Família*.

A final argument used by some is that transfers linked to the labour market might help insert workers in a virtuous trajectory in the formal labour market. This is the argument behind the US Earned Income Tax Credit, which became part of the US social protection landscape with the Tax Reform Act of 1986. The same effect can be achieved using much better designs. One of the designs in this text includes a formal labour market trajectory incentive.

3.3 CHILD INCOME TAX DEDUCTION

Brazilians have been paying income tax since 1922, but the child deduction dates from 1956 (Decree No. 40.702/1956). It is perhaps telling that the society decided to institute '*Bolsa Família* for rich people' almost 50 years before *Bolsa Família* for poor people. The income tax deduction for any dependent individual is BRL2,275.08 per year (or BRL189.59 per month). However, the deduction is applied to taxable income, and this means that to calculate the actual economic benefit, one must multiply the deduction by the marginal tax rate faced by any given taxpayer. This is shown in Table 3.

TABLE 3
Implicit income tax benefits

Marginal tax rate (%)	Bracket (BRL)	Benefit for children and youth (0–21 or 0–25)
7.5	1,903.98	14.22
15.0	2,826.65	28.44
22.5	3,751.05	42.66
27.5	4,664.68	52.14

Source: Secretaria da Receita Federal (n.d.).

While the calculation above is not difficult, it is likely that most beneficiaries of the child deduction are unaware that they are receiving a child benefit. The deduction is paid once per year, together with all other deductions. There is no itemised deposit in beneficiaries' current account called 'child deduction'; taxpayers receive only a single payment called 'income tax restitution'.

The effective implicit benefit varies from zero, if the taxpayer has taxable income of less than BRL1,903.98 per month, to BRL52.14 per month for taxpayers with taxable income above BRL4,664.68 per month. If we add up all the implicit benefits, the total is BRL4.7 billion per year for children and another BRL1.4 billion for adults (parents or grandparents or other dependents of the taxpayer).[12] One need not be a mathematics genius to conclude that this is a very regressive benefit, difficult to justify on welfare grounds.

3.4 *SALÁRIO-FAMÍLIA*

The oldest of our three child benefits is the venerable *Salário-Família*, which dates from the Estado Novo regime in 1938. Today its legal basis comprises articles 65–70 of Law No. 8213/1991. The *Salário-Família* is a BRL31.71[13] monthly social security benefit paid to individuals earning less than BRL1,319.18 with children younger than 14. Benefits paid to formal employees, formal self-employed people and, since 2015, formal domestic workers are paid by their employers. These employers then deduct these payments from their social security contributions. This means that most of *Salário-Família* is a tax benefit and thus off budget. The small minority of benefits paid to retired workers or workers on sick leave are paid for by the social security administration from the social security budget. Both parents may be entitled to *Salário-Família*, and this means that children may be entitled to two benefits.

Since *Salário-Família* is a decentralised tax benefit, there is no registry of those who effectively receive it. There are nominal conditionalities for health (vaccination up to age 6) and education (school attendance), but there is no enforcement, since there is no registry of beneficiaries.

Finally, the payment is included in the employee's monthly pay and is just another item in a paycheck with dozens of items. It is likely that many of those who receive the benefit are not even aware they are receiving it.

3.5 OVERVIEW

Brazil pays BRL52 billion in four benefits (*Bolsa Família*, *Abono Salarial*, *Salário-Família* and the child income tax deduction). The set of these four benefits suffers from various shortcomings. The challenge we have before us is how to design, with the same resources, a single coherent system which leaves no one out and pays the same values for the same social risks. Before going into the details of the proposed system, let us look at the present system's distributive characteristics.

4 DISTRIBUTIVE ASPECTS OF THE NON-CONTRIBUTORY SOCIAL PROTECTION SYSTEM IN BRAZIL

Once we have established that that Brazilian social protection policy is an incongruous patchwork, the central question becomes 'How well does it work?' It may be that, despite the conceptual differences and utter lack of communication between them, the four programmes end up working well together. If so, then perhaps there is little need for radical change.

One of the most important aspects of social protection is its progressivity or lack thereof. Does it reach poor people, or is it captured by rich people? How much does it reduce inequality? Is it in line with the distribution of social risks, especially poverty and childhood?

These questions can be answered by incidence analysis as well as by modelling impacts on inequality and poverty. The distributions of all four benefits will be analysed using the 2017 *PNAD Contínua* household survey. We also correct the totals so that the numbers are in line with administrative records.

Figure 1 shows the *ex post* distribution of the four benefits. *Ex post* means that the income of all the benefits is included in total income so that effectively what we are looking at is the incidence of an additional BRL1 put into each programme's budget.

FIGURE 1
Distribution of social protection beneficiaries (children and people vulnerable to poverty—individuals)
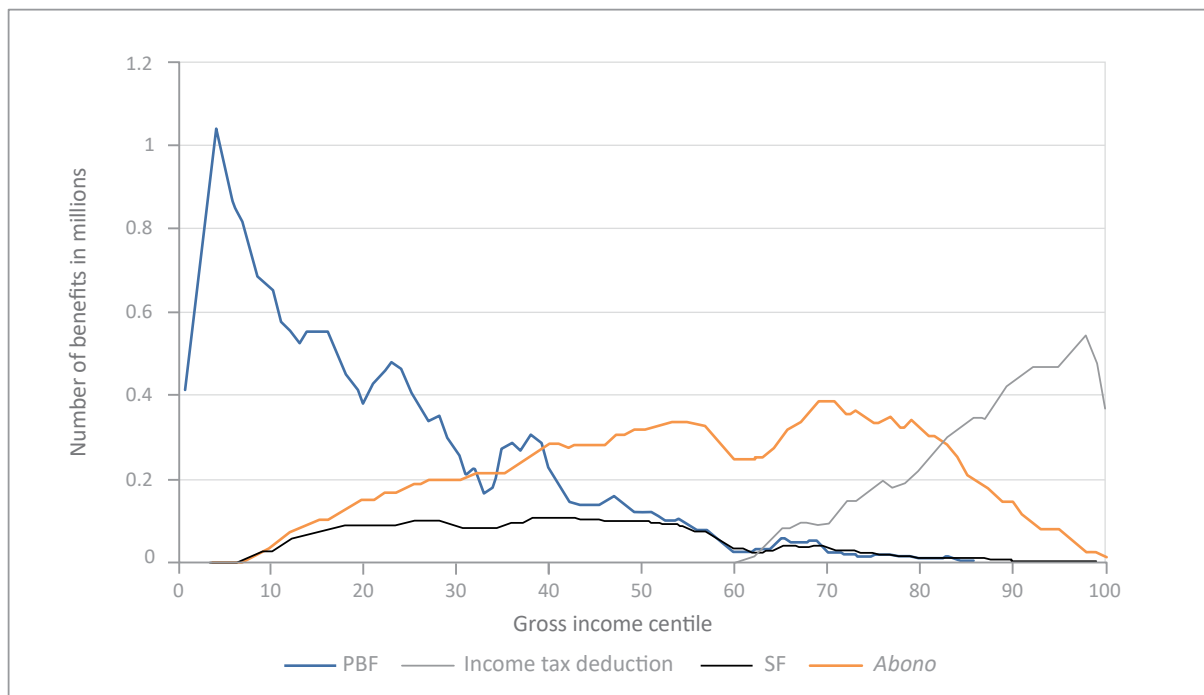
Source: PNAD *Contínua* household survey 2017.

Figure 1 also shows that *Bolsa Família*, *Abono Salarial* and the income tax child deduction have the most beneficiaries, while *Salário-Família* is much smaller.

Figure 2 is a simpler version of Figure 1, showing the percentage of beneficiaries according to thirds of the income distribution. Once again, income is *ex post*, which means the income of the programmes is included in calculating per capita income to allocate each person to his or her third.

Figures 1 and 2 show that *Bolsa Família* is strongly concentrated in the lower part of the income distribution. The overwhelming majority of its beneficiaries are in the lower third of a highly unequal income distribution. This, of course, only confirms what has long been known from the extensive literature on *Bolsa Família*: it is a strongly pro-poor programme whose progressivity is unrivalled by anything else in the Brazilian social protection landscape.

The other extreme is the income tax child deduction, which is almost the mirror image of *Bolsa Família*: virtually all of its beneficiaries are in the upper third of the income distribution. It is, however, particularly regressive in that, even among taxpayers, those with higher incomes receive higher benefits.

In-between are *Salário-Família*, which despite being limited to children of formal workers, is still surprisingly pro-poor, and its regressive mirror image, *Abono Salarial*. The difference between the two is not only that *Salário-Família*'s poverty line is lower, but also, most importantly, that when children are required, many secondary workers from relatively wealthy families are excluded.

FIGURE 2
**Beneficiaries by income (in thirds of the population)**
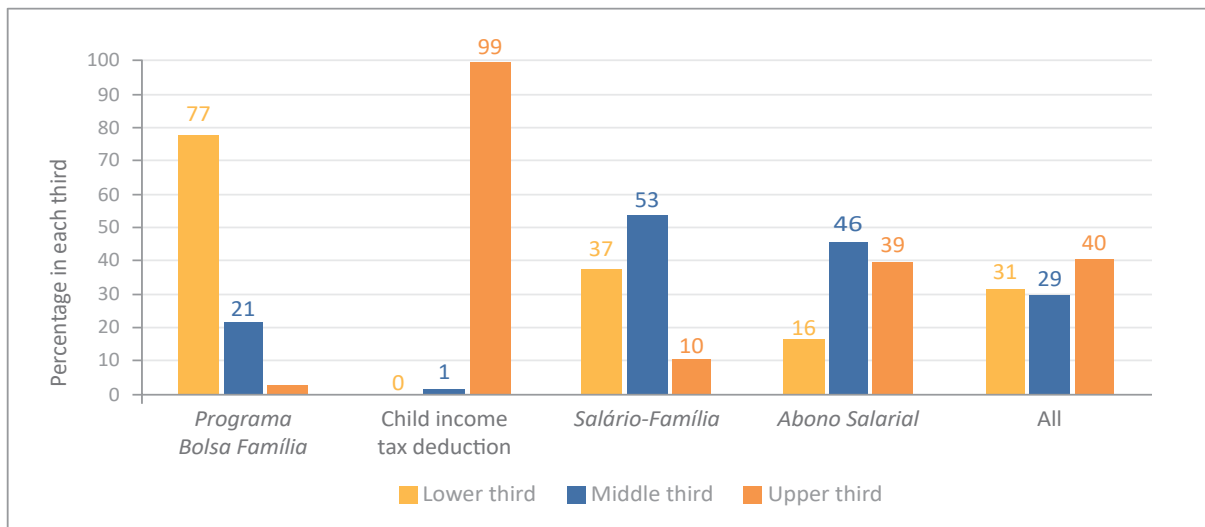
Source: PNAD *Contínua* household survey 2017.

If taken as a whole, the set for transfers to children and those vulnerable to poverty is not progressive. Forty per cent of transfers go to the richest third of the income distribution, and only 31 per cent to the poorest third—due to *Bolsa Família*.

One criticism of this social policy patchwork is that there is no communication or articulation between any of the four programmes. Whether this criticism is minor or major depends on the extent of duplication of benefits and potential beneficiaries left behind. Figure 3 shows the number of individuals in families receiving two or more benefits.

Table 4 shows the sum of the curves in Figure 3: the total number of people receiving overlapping benefits. Since there are four programmes, there are six possible overlaps, but some are zero, such as *Bolsa Família* and income tax. The fact that the largest overlap is between *Abono Salarial* and *Salário-Família* should not be a surprise, since all those eligible for the latter are also eligible for the former (though not the other way around). The 15.4 million duplications are more numerous than the 5 million *Salário-Família* benefits, since we are counting all individuals in families receiving both benefits. The considerable overlap between *Salário-Família* and *Bolsa Família* is because large families with a single member working in the formal labour market can receive both benefits.

FIGURE 3
Coverage overlap by income centile (in 000s—family concept)
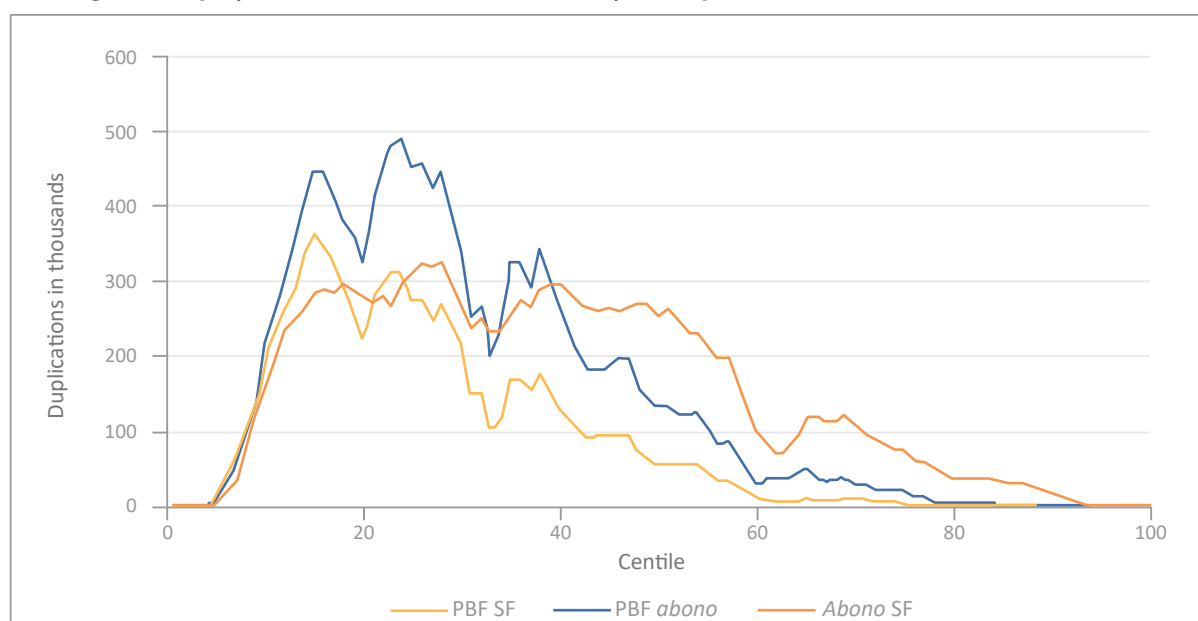
Note: Overlaps are calculated in terms of households. This means that, for example, all members of a household receiving an *Abono Salarial* grant are counted among its beneficiaries.

Source: PNAD Contínua 2017/IBGE (n.d.).

TABLE 4
Programme overlap (household concept) (in millions of people in beneficiary households)

Programme	Individuals in beneficiary families	Individual beneficiaries
Abono Salarial and *Salário-Família*	15.4	5
Bolsa Família and *Abono Salarial*	9.3	
Bolsa Família and *Salário-Família*	5.8	1.4
Income tax deduction and *Abono Salarial*	3.4	–
Other overlaps	2.7	–

Source: PNAD *Contínua* 2017/IBGE (n.d.).

Much more serious, in our opinion, are coverage gaps, particularly for children. Figure 4 shows two curves. The first, in blue, shows the distribution of 52 million children across Brazil's 100 income centiles; the second, in black, shows the distribution of the 17 million children whose families receive no benefit for them. The black curve shows a clear concentration of children in income centiles that are vulnerable to poverty. Over two thirds (69 per cent) of children with no benefits are in the lower half of the income distribution, and 40 per cent are in the lower third.

That one third of the children in a country with three child benefit programmes have no coverage whatsoever is completely unacceptable. That the distribution of these children be heavily skewed towards low incomes is even more so.

FIGURE 4
Children with no coverage (in thousands)
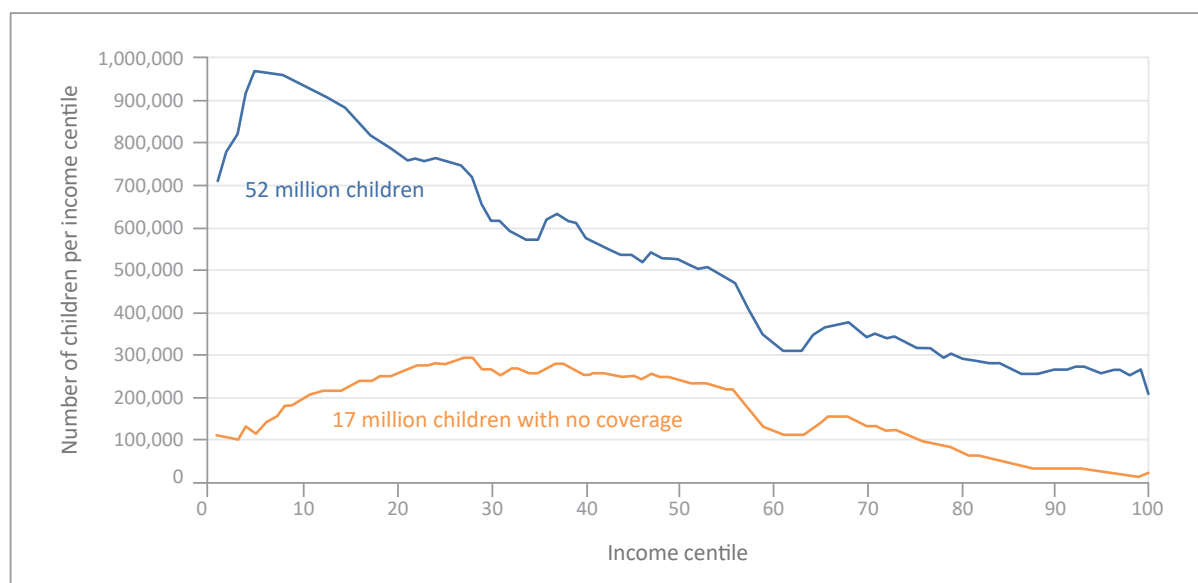
Source: PNAD *Contínua* 2017/IBGE (n.d.).

But, in addition to the children, there are other coverage gaps. Thirteen million people in the poorest quintile have no social protection coverage of any kind. These individuals are all poor or highly vulnerable to poverty. In our opinion, this is the strongest argument in favour of a major overhaul of the social protection system for children and those vulnerable to poverty.

What about the impacts on poverty and inequality? To ascertain the impacts of each programme on inequality and poverty, we need two steps. First, we calculate the Gini[14] indices and poverty head counts of the *ex ante* income distribution (*ex ante* means with none of the four programmes added to the income of each family). Second, we recalculate these measures as we add each successive programme to the income distribution.

The results are shown in Table 5. The Gini coefficient of per capita income distribution absent the four programmes is 0.548 (the first line of the table), and it falls to 0.537 after adding social protection for children and individuals vulnerable to poverty. This is a fall of 1.1 Gini points, and over 70 per cent of it is due to *Bolsa Família*.[15]

TABLE 5
Impacts on inequality and poverty

Income distribution	Gini coefficient	Δ Gini	Extreme poverty (BRL115.36) (%)	Δ Extreme poverty (%)
Ex ante income	0.548	-	7.40	-
+ *Bolsa Família*	0.540	-0.008	5.89	1.51
+ *Abono Salarial*	0.537	-0.003	5.88	0.00
+ Income tax deduction	0.538	0.001	5.88	0.00
+ *Salário-Família* (all four)	0.537	-0.001	5.88	0.01

Source: PNAD *Contínua* 2017/IBGE (n.d.).

Finally, let us look at poverty. An analogous analysis using the World Bank's USD1.90/day (BRL115.36 per month) extreme poverty line shows a fall in the poverty rate of 1.52 percentage points, 1.51 of which is due to *Bolsa Família*. The contributions of *Abono Salarial*, child income tax deductions and *Salário-Família* are essentially zero. If the higher World Bank line (BRL333.90 per month) is used, the results change a little, and about half of the fall can be attributed to *Bolsa Família*. We can do much better.

5 PROPOSALS FOR A NEW DESIGN

We hope to have left no doubt that the considerable (BRL52 billion) resources allocated to social protection for children and those vulnerable to poverty are poorly targeted, fail to adequately cover either poor people or children, and are very poorly managed, with overlaps and coverage gaps. But this conclusion is just the prelude to the real objective of this text, which is to propose a new and better system capable of using these same resources in a more progressive way which leaves no children behind.

The mechanism proposed is along the lines of a negative income tax. This idea has wide appeal across the ideological spectrum, and authors as different as Martin Luther King Junior (2010) and Milton Friedman (Friedman and Friedman 1990) have expressed their approval. Underlying the idea of a negative income tax are the principles that the social protection system should be as simple as possible and that abrupt cut-offs in benefits are to be avoided.

A crucial parameter in a negative income tax is the implicit marginal rate of taxation of a given benefit. This is merely the percentage of the transfers that is lost due to an increase in per capita income. For example, the implicit marginal rate of taxation of *Bolsa Família*'s BSP is 100 per cent—each increase of BRL1 in income leads to an equal reduction in the benefit so that the individual's total income does not change. In the case of the basic benefit, the implicit rate is 0 per cent from an income of zero to the eligibility line of BRL89.00 and then infinite—an increase in income from BRL89.00 to BRL89.01 entails the loss of the entire benefit. Likewise, for *Abono Salarial*, it is 0 per cent from one to two minimum wages and infinite at two minimum wages. We believe that very high marginal rates of implicit taxation can lead to undesirable behaviours and incentives and that the rate should never be above 50 per cent.

5.1 GUIDING PRINCIPLES

The guiding principles are perhaps the most important part of this proposal. They are by construction flexible enough to allow a wide variety of benefit schemes, but necessary for all of them.

- **Fiscal and social responsibility.** One of the essential characteristics of this proposal (and, we believe, of all decent proposals for reforming social protection) is that we do not propose to spend money that we do not have. On the other hand, we also abhor the idea of balancing the budget at the expense of poor people. This means we work with BRL52 billion (or whatever other amount elected officials decide is the budget for social protection for children and those vulnerable to poverty).

- **Flexibility regarding social and demographic change.** This proposal largely targets children. This makes all the sense in the world, particularly considering how vulnerable they are to poverty. However, if the relation between poverty and age eventually changes, the framework must be flexible enough to allow for benefit types and values to be easily changed (i.e. without another constitutional amendment).

- **Need measured by per capita family income; family defined as a household.** This principle should be self-explanatory. First, if a country with significant informality defines need as low formal income, it has started its fight against poverty and deprivation on the wrong foot. Second, the fact that people under the same roof share expenses means that social security or inheritance definitions of family are not adequate to measure need.

- **Use of the *Cadastro Único* as the sole poverty identification mechanism.** Once we define the measure of poverty as being per capita family income, we need an instrument to ascertain the poverty status of each family. This mechanism already exists and is the *Cadastro Único*. While imperfect, it is much better than any alternative (Bartholo, Mostafa, and Osório 2018). The *Cadastro Único* is based on concepts of income and family that have been perfected throughout the last 15 years, and it is by far the best instrument available for identifying poor people in Brazil.

- **A single eligibility threshold.** The current social protection system uses a plethora of eligibility thresholds: BRL89.00 per capita (*Bolsa Família*); BRL178.00 per capita (*Bolsa Família*); formal labour income of BRL1,319.18 labour(*Salário-Família*); and formal labour income equivalent to two minimum wages (*Abono Salarial*). And this ignores the constant creation of other eligibility threholds through judicial activism made largely possible by the confusion created by the excess of thresholds in the legislation. We should substitute all these thresholds by a single eligibility threshold that defines what a poor or needy family is. We suggest BRL250.00 per capita, but other figures are possible.

- **A benefit structure with no discontinuities.** Discontinuities create situations in which an increase of one cent in the income of an individual or family entails the total loss of a social protection benefit. These discontinuities lead to perverse and unnecessary incentives. This is why we always work with implicit marginal rates of taxation on benefits that are no higher than 50 per cent.

- **A rule in law on adjustment for inflation.** The absence of a clear rule on how benefits and eligibility thresholds will be adjusted for inflation leads to two equally perverse problems. First, the definition of need is compressed through inflation, and social protection becomes increasingly residual and ineffective. Second, the opposite: the populist drive for excessive increases close to election time. Clear rules on periodicity and criteria for updating or increasing programme parameters avoid both pitfalls.

Both designs to be presented in this section mix categorical universal benefits with income-targeted benefits for poor families (even families without children). The categorical benefit follows Soares et al. (2019) and is paid for all children and youth who are not yet 18, whatever their family income. Whether sons of paupers or daughters of millionaires, black or white, living in small or in large households, all children would be covered.

But why all children? Why not target only poor children, thereby allowing for a higher benefit value? We can think of four very good reasons.

The first is that childhood is so intertwined with poverty in Brazil that a universal child grant would be the second most progressive benefit in the varied Brazilian social protection landscape. Only *Bolsa Família* would be better targeted at poor people. This is because, as shown in Figure 4, the distribution of children is so skewed towards poor households that a universal child grant would be an excellent anti-poverty programme.

A related reason is income volatility. When incomes vary considerably from month to month, as is the case of a poor Brazilian family dependent on the informal labour market, it is impossible to cover all poor households unless one aims very high in the income distribution. To ensure that all poor children are covered, a child grant would need to be aimed at the 70th percentile or even higher. If you are going to go that high, you might as well cover all children.

The third reason is that rich and middle-class people already have their *Bolsa Família* (and it is more generous and has been around for far longer than the child benefit for poor people). This should be a hint as to how good the middle class is at protecting its benefits. This means that a universal child grant would help build a coalition of all Brazilians in favour of their children. Having rich and middle-class people onboard would help protect the benefits of poor people.

Finally, as emphasised in Soares et al. (2019), a universal benefit avoids stigma and promotes the symbolic perception that all children and youth, whatever their background, are equally valued by the State. It also becomes an issue of citizenship, as it would be the second context in which all Brazilians are equal (the first is voting).

The seven principles above allow considerable flexibility in the design of an inclusive and effective social protection system. Nevertheless, it is crucial that all seven be adopted. If adopted piecemeal, we risk the creation of a social protection system as bad as the one we have today.

One final point is that the cost simulations run below all use the *Cadastro Único*, and not household surveys. This is because the two incomes are quite different, and the decision to grant benefits will ultimately be based on the *Cadastro Único* (the fourth principle). We will use eligibility income (from the *Cadastro Único*) and not cross-sectional income (from household surveys) to estimate costs.

5.2 BASE PROPOSAL: THREE BENEFITS

Our first and preferred proposal comprises only three grants (in social protection, simple is beautiful) that are crucial to achieve our social protection goals.

The first would be a BRL45 universal child grant for all children and youth younger than 18 (paid through their families). All children and youth would be eligible, regardless of their family's income. This, of course, means that the implicit marginal tax on this benefit would be zero.

The second benefit would be a targeted and means-tested grant for children up to age 4. A special treatment for these most vulnerable of children is justified by the extensive literature documenting the immense importance of the early years of life in cognitive development (Heckman 2006). Poor families face exceptional challenges in offering adequate conditions for very young children. Why age 4? Because Brazilian law says that

is the age children should begin their compulsory schooling and, thus, receive school lunches. This grant would be much higher than the universal child grant—BRL90 for every child under 4 whose per capita family income is under BRL250. For children in families whose per capita income is more than that, an implicit marginal tax of 50 per cent would take effect. Every additional BRL2 in income would lead to a reduction of BRL1 in the grant until it is completely eliminated at BRL430.

Finally, we would have a targeted anti-poverty grant for individuals of all ages. Its value would be BRL44, and its implicit tax rate would also be 50 per cent. The income used in the eligibility criterion of this third grant includes the income from the other two. Its objective is to mimic the role played by the family-wide benefits of *Bolsa Família* today—a benefit of last resort for families confronted with extreme poverty. Table 6 summarises these benefits and Figure 5 shows the benefit structure as a function of income.

TABLE 6
Base proposal: benefits

Benefit	Full benefit value (BRL)	Implicit marginal tax rate (%)
Universal child and youth grant	45	0
Targeted early child development (ECD) grant	90	50
Last resort anti-poverty grant	44	50

FIGURE 5
Base proposal, benefit structure according to income (in BRL)
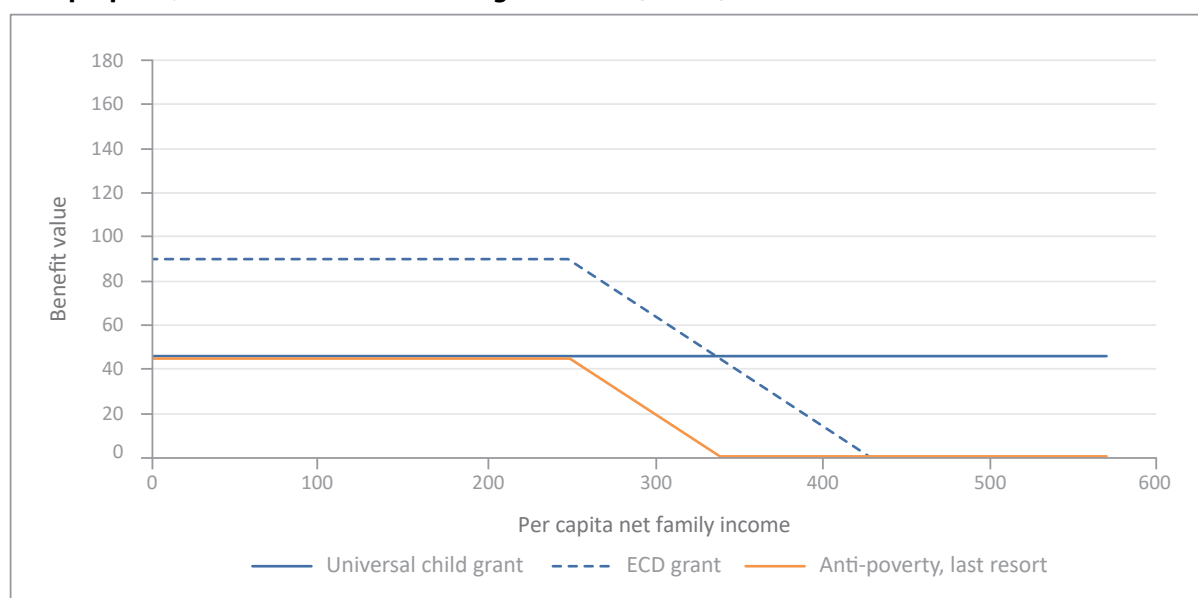
Although both have the same implicit tax rate and eligibility threshold, the early child development (ECD) and last resort anti-poverty grants are paid to different income groups. Since the value of the ECD grant is BRL90, it is paid to families with per capita incomes up to BRL430. The BRL44 value for the anti-poverty grant means it will be paid to families with incomes up to BRL338.

Implementing this proposal, even building on the *Cadastro Único* and the technology developed over the last 15 years, will require a reasonable amount of effort on the part of municipal social workers. Inputting data on all families with children into the *Cadastro Único* cannot be done overnight and requires quite a few social worker hours. To help foot the bill, the proposal also includes a BRL500 million increase in the *Índice de Gestão Descentralizada* (Decentralised Management Index) for the *Bolsa Família* programme (IGD-PBF).[16]

Table 7 shows the costs of each benefit, as well as the additional BRL500 million for the municipalities.

TABLE 7

Base proposal, cost of each grant

Benefit	Beneficiaries (million)	Cost (BRL billions)	Average value		Cost (%)
			Per year	Monthly	
Universal child grant	54.129	29.2	540.00	45.00	56
Targeted ECD grant	5.312	5.6	1,045.88	87.16	11
Last resort grant	33.529	16.6	496.03	41.34	32
IGD	n.a.	0.5	n.a.	n.a	1
Total	92.971	51.8	558.43	46.54	100
Budget limit		BRL52.8 billion			
Balance		BRL0.9 billion			

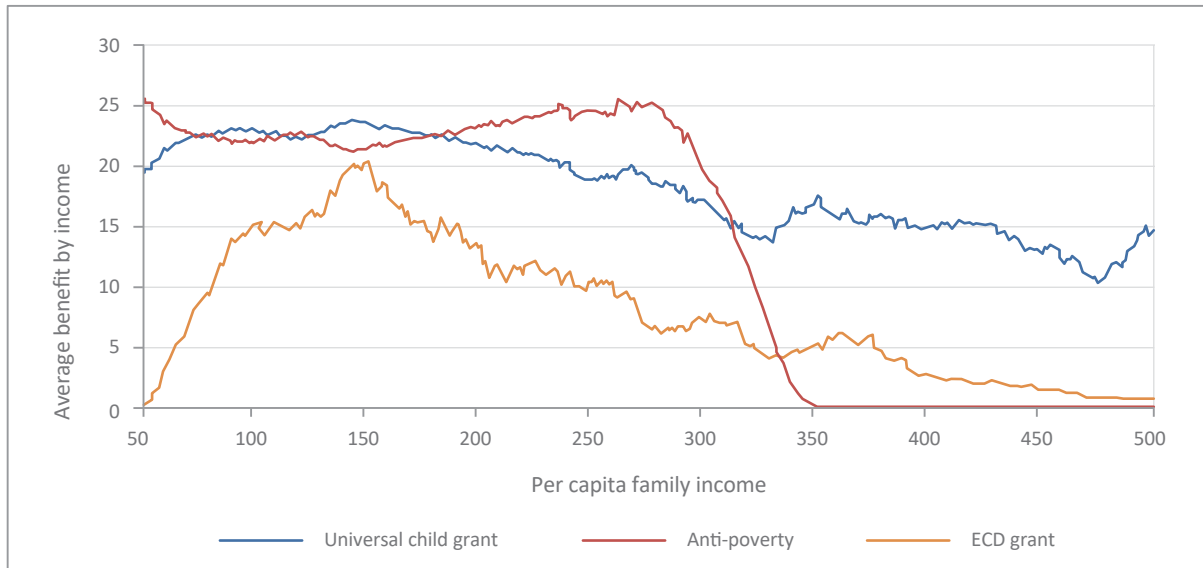*Source:* Simulations with *Cadastro Único*, version 7, July 2018 version.

Most of the cost (56 per cent) would be due to the universal child grant. This is not unexpected, since all families with children, rich and poor, will be eligible. The value per child will be exactly BRL45. The average values of the other grants will always be less than their full value because there will always be families above the eligibility threshold who nevertheless will receive some benefit, although less than the full value.

Finally, the last line number in the table is how much financial leeway we have. As per the first guiding principle, this number should always be positive but close to zero.

Finally, Figure 6 shows the distribution of benefits according to the *ex ante* per capita income distribution. Benefit concessions will be up to the numbers in the *Cadastro Único*, so that was the database we used for the simulation.

The average benefit levels are clearly inferior to those shown in Figure 5. This is because the averages are over all people with a given income and include households who do not receive a given benefit. For example, the average per capita universal child grant for families with a per capita income of BRL250 is about BRL20 per month because only 44 per cent of people in these families are under 18.

FIGURE 6
Base proposal, distribution of benefits according to income (in BRL)

Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

5.3 ALTERATIVE PROPOSAL: INCENTIVES FOR A VIRTUOUS LABOUR MARKET TRAJECTORY AND TIMELY HIGH SCHOOL ATTENDANCE

The simple proposal above is the one we prefer, but our structure is flexible, and a variety of different grants can be accommodated within it. To demonstrate this flexibility, we include another benefit structure that: (i) has an incentive for a virtuous labour market trajectory (virtuous means formal);[17] (ii) splits the ECD grant into two tiers according to age (the younger the child, the greater the need); and (iii) establishes an incentive for timely enrolment in secondary school.

To pay for the wish list above, we will need to lower the universal child grant and make it into a two-tier system by income. It would remain universal but would pay higher benefits (BRL60) to children and youth whose family income is under the eligibility threshold, but only BRL30 to children and youth whose family income is above the threshold, obviously with a gradual transition between the two as per the sixth guiding principle. All children still receive something, but poorer children receive more.

The first new benefit would be a new *Abono Salarial*. Its goal would be formal labour market trajectories, but the poverty criterion would be per capita family income, as per the second and third principles, and definitely not low pay in the formal labour market. Its value would be BRL80 per month, which is close to the value paid by *Abono Salarial* today (1/12 of the 2019 minimum wage, which amounts to BRL83.17). The implicit marginal tax rate would need to be lower than 50 per cent (otherwise almost no one would be eligible). We work with 20 per cent in this proposal.

Since the aim here is to have two tiers of grants, the second new benefit would be an *Abono Salarial* for youth. In keeping with the hypothesis that virtuous labour market trajectories are especially important at the beginning of a labour market career, the *Abono Salarial* for youth would be more generous: BRL120.

Secondary education is Brazil's greatest challenge and most limiting educational bottleneck: teenagers do not learn much and drop out in droves. This means an incentive for timely enrolment in secondary school could have a positive impact on this particularly difficult educational hurdle. This incentive could take the form of a monthly grant of BRL80 to children aged 16 and 17 who are enrolled in high school.

Finally, we propose to divide the ECD grant in two: BRL100 for children aged less than 2 years, and BRL50 for children aged 2 or 3 years. The justification is once again the Heckman curve. Table 8 summarises the benefit structure.

TABLE 8
Alternative proposal, benefit summary

Benefit	Value (BRL)	Implicit marginal tax rate (%)
Universal child grant	60 and 30	0
Targeted ECD grant	100 and 50	50
Anti-poverty grant	40	50
New *Abono Salarial*	80	20
Youth *Abono Salarial*	120	20
Secondary education grant	80	50

Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

FIGURE 7
Alternative proposal, benefit structure according to income (in BRL)
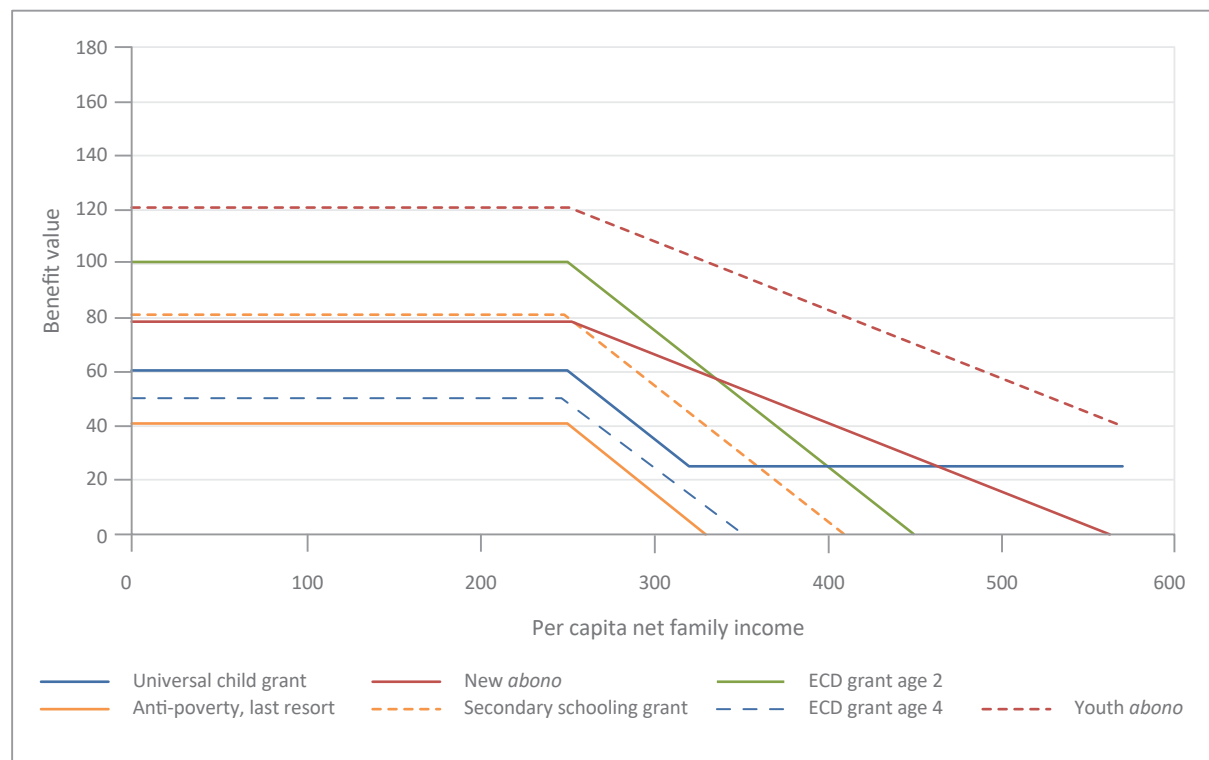
Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

The universal child and last resort anti-poverty grants would have their values reduced to pay for the wish list above. We must never forget that we are working with a budget limit of BRL52 million. Fiscal responsibility must always be taken seriously. Figure 7 shows the alternative benefit structure as a function of per capita income.

In addition to having twice as many lines as Figure 5, Figure 7 also shows ramps that are not as steep for the new *Abono Salarial* and youth *Abono Salarial*. If we do not use lower implicit tax rates, very few families will receive either the new or the youth *Abono Salarial*. This is because a single minimum wage will raise the incomes of all but large families well beyond the BRL250 threshold.

The big-ticket items in budgetary terms remain the universal child grant and the anti-poverty grant. Relatively few families in the *Cadastro Único* have members with formal jobs, relatively few youth are enrolled in secondary education at the right age, and there are not that many children under 4 years of age in the *Cadastro Único*.

However, as knowledge about these benefits becomes disseminated, more people may sign up for means-tested benefits using the *Cadastro Único*. These will mostly be people with per capita income in the BRL250–560 range with formal jobs or enrolled in high school. Our *PNAD Contínua* household survey, for example, identifies 4.5 million workers with per capita incomes in that range, which would lead to a cost closer to BRL2.4 billion than the BRL1.7 billion according to the *Cadastro Único*. While the difference between the two is within our safety margin of BRL1.3 billion, maybe more precise calculations using the *PNAD Contínua* would be welcome.

Figure 8 shows relatively high average benefits for the new and youth *Abono Salarial* in the BRL300–500 range, but there are few families in this income interval, which keeps the total cost quite low.

The framework behind the two proposals offers many adjustable parameters. The value of each benefit, its implicit marginal tax rate and even the eligibility threshold allow for countless combinations, addressing different needs, all adding up to less than BRL52 billion per year. Nevertheless, our preferred model is the simplest one. The more complicated things become, the more likely they are to go wrong.

TABLE 9
Alternative proposal, cost of benefits

Benefit	Beneficiaries (millions)	Value (BRL billions)	Annual mean (BRL)	Monthly mean (BRL)	Cost (%)
Universal child grant	54.129	19.5	360.00	30.00	38
Targeted ECD grant	5.243	4.3	824.31	68.69	8
Targeted child grant	26.428	9.3	353.02	29.42	18
Anti-poverty grant	33.292	15.1	454.76	37.90	29
New *Abono Salarial*	2.542	1.7	676.05	56.34	3
Youth *Abono Salarial*	0.396	0.3	660.57	55.05	1
Secondary enrolment grant	1.346	1.2	891.40	74.28	2
IGD	n.a.	0.5	n.a.	n.a	1
Total	123.376	51.5	417.08	34.76	82
Spending limit		52.1			
Balance		0.6			

Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

FIGURE 8
Alternative proposal, distribution of benefits (in BRL)
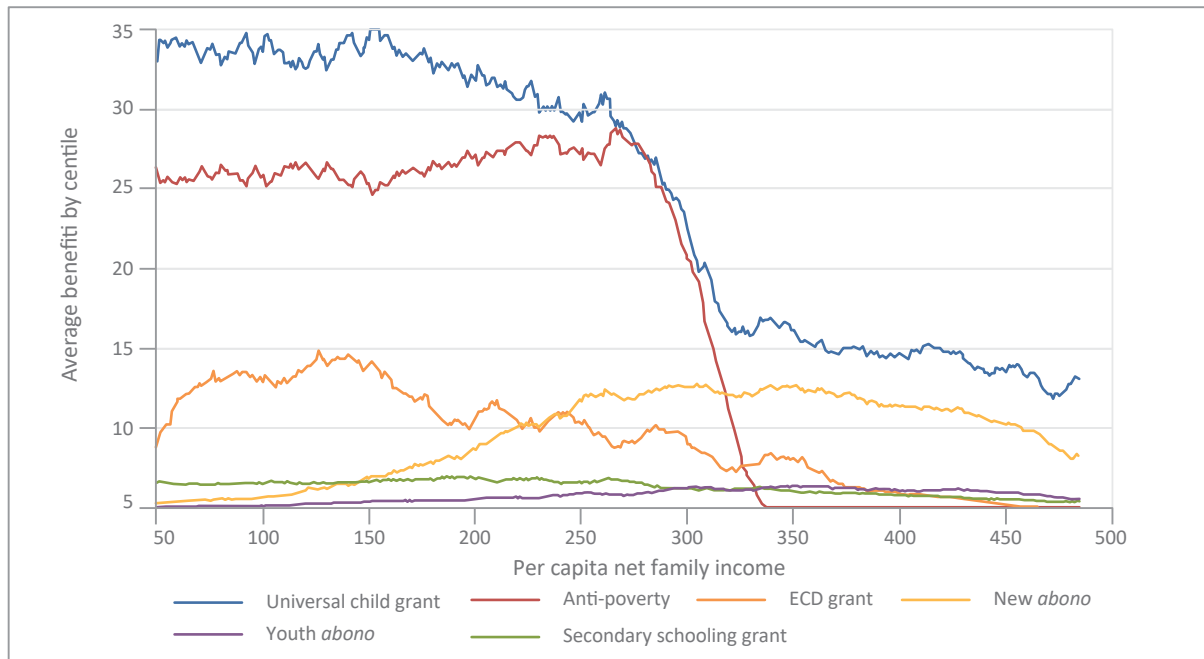
Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

6 DISTRIBUTIVE ANALYSIS

If the two proposals suggested here are not much better than the existing social protection patchwork, the effort to bring about change may not be worthwhile. To estimate distributive impacts, we must return to the *PNAD Contínua* household survey. This is because the *Cadastro Único* is an administrative registry in which 'income' is income for programme eligibility[18] and not a cross-section of family incomes at a given moment in time. In addition, to calculate inequality, we need to take into account those not in the *Cadastro Único*.

There are, however, some problems. We cannot use net income (as in without the transfers whose modification we argue for here) as reported in the *PNAD Contínua*. This is because, once again, income in the *Cadastro Único* is income for programme eligibility, which is not the same as income in the *PNAD Contínua*. This means that any new benefits will be paid according to income that is not household survey income in the *PNAD Contínua*. This, in turn, means that we need an econometric model to simulate *Cadastro Único* eligibility income in the household survey.

We do this by matching a few of the families in the *Cadastro Único* and the *PNAD Contínua* using dates of birth and other demographic identifiers and then using a Hot Deck procedure to assign *Cadastro Único* incomes to the families we could not match. We do this only for families whose per capita income is BRL306 or less because the density of people in the *Cadastro Único* is very low after this income level. For families above BRL306 per capita we suppose that their *PNAD Contínua* income is the same as their *Cadastro Único* income.

TABLE 10
Impacts on inequality and poverty

Benefit	Inequality		Extreme poverty (BRL115.36)		Poverty (BRL333.90)	
	Gini	Δ Gini	%	Δ %	%	Δ %
Net income	0.5484		7.4	-	22.9	-
Present system	0.5374	0.0110	5.9	1.5	20.6	2.2
Base proposal	0.5287	0.0197	4.4	3.0	18.5	4.4
Alternative proposal	0.5281	0.0203	4.4	3.0	18.4	4.5

Source: IBGE (n.d.).

After this matching procedure, we have two incomes: the first is the 'real' income as measured by the household survey, and the second is the programme eligibility income. The correlation between the two using the entire *PNAD Contínua* income range is close to 99 per cent, but if only individuals with per capita income of less than BRL306 are considered, the correlation falls to 28 per cent. This is not unexpected, given the very high income volatility faced by poor people in Brazil. The income averages for poor people are BRL147 for household survey income and BRL98 for programme eligibility income.

With these two incomes, we can calculate the impacts on inequality and poverty using the same indicators calculated in Section 3. They are shown in Table 10.

The two proposals should be evaluated compared to what we have today (the second line of Table 10). The simulated results are very positive. While today's four benefits reduce inequality by 1.1 Gini points, the two new proposed benefit structures do almost twice as well: 1.97 and 2.03 Gini points.

The new benefits do even better with poverty and extreme poverty. Extreme poverty (using a BRL115.36 line corresponding to the World Bank's USD1.90 poverty line) falls by 1.5 percentage points due to the four programmes we hope to replace but would fall by twice as much (3 points) with either of the two new benefit structures. Total poverty (using BRL333.90, equivalent to the World Bank's USD5.50 line) falls by 4.4 and 4.5 points, respectively, for the base and alternative proposals, up from the 2.2 percentage points for the system we have today.

Summing up, when we eliminate the duplications, the coverage gaps and the regressive benefits that are the hallmarks of the system Brazil has today, we double its positive impacts.

Winners and losers

In any social protection overhaul there will be winners and losers. Most of the losers will be *Abono Salarial* and income tax deduction beneficiaries in the upper half of the income distribution (such as those who trade in a BRL53 tax benefit for a BRL45 universal one). Frankly, we do not much care for their small losses other than being wary of losing political support if we alienate them.

Many of the losers, however, will be among the poorest individuals in society, since the BSP is a poverty gap benefit paying BRL89 per person for people with zero income in the *Cadastro*

Único. While they may or may not actually have zero income, these are nevertheless very poor people for whom even a modest reduction in benefits may have dramatic consequences.

TABLE 11
Winners and losers

|	Base proposal			Alternative proposal		
	Families (millions)	**Individuals (millions)**	**Per capita (BRL)**	**Families (millions)**	**Individuals (millions)**	**Per capita (BRL)**
Lose	9.4	26.3	25.22	8.8	23.4	23.30
Same	6.1	9.9	–	5.7	9.1	–
Win	12.3	40.9	25.98	13.3	44.6	29.83

Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

To have an idea of the magnitudes, we calculated winners and losers using the *Cadastro Único*, and the magnitude is worrisome. Table 11 shows that there are about 9.4 million losing families in the base proposal, and 8.8 million in the alternative. They lose, on average, BRL25 and BRL23, respectively, per capita.

Figure 9 shows the distribution of winners and losers according to eligibility income in the *Cadastro Único*. The comparison is between the existing benefit structure and the base proposal (the one with three benefits).

FIGURE 9
Average benefit (left-hand axis) and number of people in the Cadastro (right-hand axis) as a function of net income
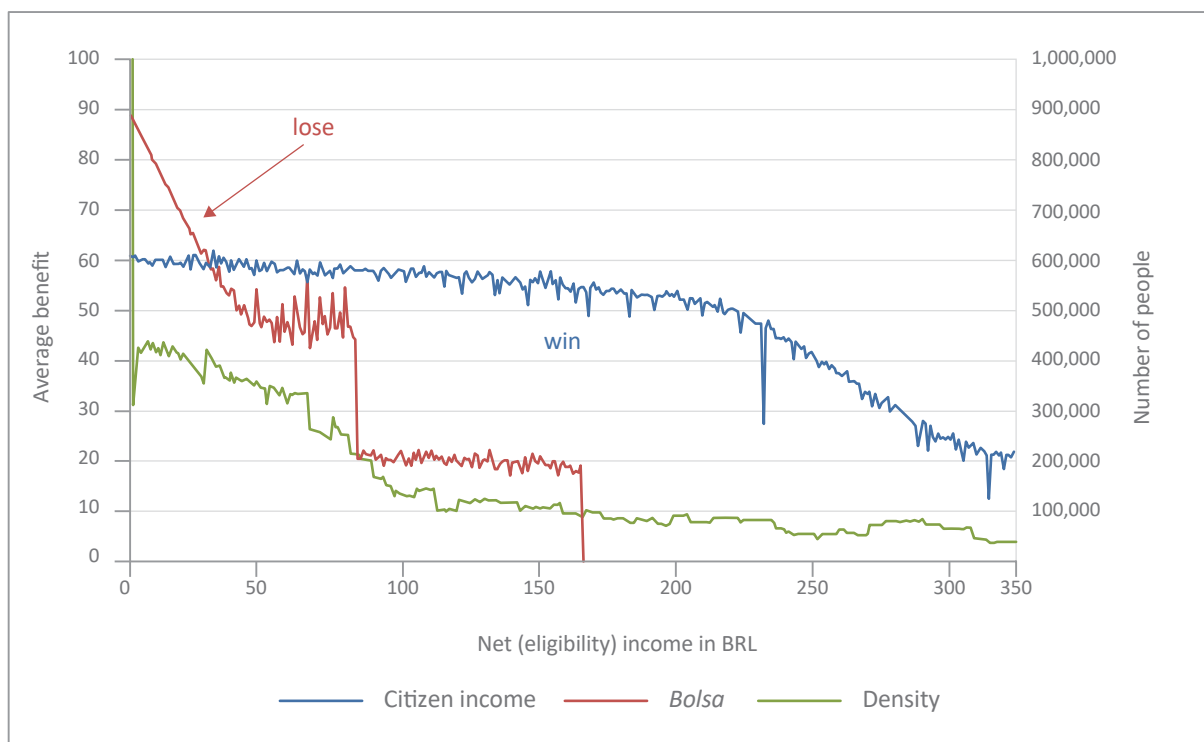
Source: Simulations with *Cadastro Único*, version 7, July 2018 version.

The graph requires some explanation. Average benefits according to net income are found on the left-hand axis. Today's *Bolsa Família* benefits are in red, and the proposed new benefits are in blue. The blue curve is above the red one for all incomes above BRL33, which means that families whose eligibly income is between BRL33 and BRL305 will win (these are averages, and benefits also depend on family structure, but benefits are mostly driven by income levels). But before concluding that there are few losers, we must look at the distribution of population density in the *Cadastro Único*. This is the grey curve whose values are to be read against the right-hand axis. The density is much higher in the lower part of the *Cadastro Único,* and this is why there are so many losers.

This is of course, limited to the *Cadastro Único*. Absent are both winners and losers whose incomes are above the various criteria for inclusion in the *Cadastro Único*.

Table 11 and Figure 9 show with alarming clarity that the proposals put forth here must be carried out carefully and gradually. The 8–9 million families in the *Cadastro Único* who stand to lose must not wake up one day and find out their benefits have suddenly been cut. Benefits should be adjusted only after an eligibility income update. Ideally, this should happen when the economy is growing and the labour market strong.

7 SOME LEGAL AND OPERATIONAL ISSUES

The changes we argue for require significant legal changes, which include even amendments to the Constitution. What follows is a brief and somewhat superficial analysis of what would be minimally necessary to bring this new benefit structure into being.

- We must change article 239 of the 1988 Constitution. This article is about the *Programa de Integração Social/Programa de Formação do Patrimônio do Servidor Público* (PIS/PASEP), which provides the budget for the *Abono Salarial*. The amendment would eliminate the transfers for PIS/PASEP resources to the Banco Nacional de Desenvolvimento Econômico e Social (BNDES), extinguish the *Abono Salarial* and assign 30 per cent of PIS/PASEP resources to social assistance.

- Article 201, item IV of the same Constitution must be amended to remove *Salário-Família* from the benefits of social security.

- The final constitutional change is that Article 203, which lays out the principles for social assistance, must be amended to include the new benefit structure proposed here.

- Once the Constitution is changed, a law describing in detail the workings of the Brazil Citizen Income is needed. Among other things, this law must:

  - modify article 35 of Law No. 9.250/1995, defining who is considered a dependent for income tax purposes;

  - modify Law No. 10.836/2003 (the *Bolsa Família* law) to define the single eligibility threshold (BRL250) and adopt the *Cadastro Único* definition of family;

  - establish a procedure for updating the eligibility threshold and the various benefit values;

- establish rules on the minimum time between income verifications.
  One possibility is to maintain the *Bolsa Família* rules (once every two years)
  for means-tested benefits and a much longer period for universal benefits;

- define the *Cadastro Único* as the sole administrative registry for running the
  new programme;

- create a reduced version of the *Cadastro Único* for universal benefits (the *Cadastro
  Único* has 22 different questionnaires, only two of which are identification required
  for a universal benefit);

- work towards registry integration so that much of the identification for the
  universal grant can be undertaken using data from other registries, such as the
  income tax registry, thus avoiding needless duplication of effort;

- increase resources for municipalities to run the registration process through
  the IGD; and

- finally, establish transition rules and a long implementation period, since this proposal
  requires significant institutional changes that will require a long-term outlook.

7.1 CONDITIONALITY

When giving money for children, the issue of conditionality will always arise. Failure to comply with *Bolsa Família* conditionalities leads to successively harsher sanctions, and, if no action is taken, cancellation of a family's benefits. This proposal has two types of benefits: means-tested and categorical universal. Is there any point in conditionality monitoring of a universal benefit? Well, it makes lots of sense if we think of conditionalities as ensuring that families ensure the rights their children are entitled to in the 1988 Constitution. Conditionality monitoring is the best and most sensitive mechanism for detecting violations of children's rights to health and schooling. In Brazil, conditionality monitoring is a structured and automated process that, when working according to plan, generates no private costs for the families and very little public cost for the State.

However, since we are talking about guaranteeing children's rights, it makes no sense to apply sanctions such as the loss of benefits. Rather, the sanction for families so dysfunctional that they cannot send their children to school should be the eventual loss of guardianship of their children, once all other possibilities have been exhausted. Close monitoring of these difficult families will be essential. Finally, Baird et al. (2013) show that labelled, soft sanction and hard sanction conditional cash transfer programmes all have a significant impact on school enrolment and attendance. Their meta-analysis further shows that although the point estimates for hard conditionality transfers on schooling are higher, they are not significantly different from the estimates for labelled transfers.

In other words, we argue that monitoring of vaccination and school attendance should be extended to all children, but that non-compliance should generate no payment interruptions. Instead, these families should be flagged for close support by social services.

In addition to the legal aspects already described, there are various operational issues.

- The *Cadastro Único* must be integrated with other registries that allow for decentralised
  collection of information necessary for payment of the universal benefit (the most

difficult challenge will be the tax registry, protected by a tax secrecy law and a secrecy-obsessed bureaucracy).

• Multiple recipients per family may be required in some cases. Not all benefits will be paid to the mother of the family, as is the case today.

• Institutionalised children and youth present a challenge. How will they be paid? Who will be paid on their behalf?

• Constitutional amendment 95 establishes a 10-year freeze on federal public expenditures, and tax expenditures are not included in the cap. This means that transforming *Salário-Família* and income tax deductions into expenditures will show up in the budget as an increase in expenditures and not an expenditure-neutral change, as presented here. This is not a major problem, but it requires either an increase in the cap or that tax benefits continue to be paid by the Federal Revenue Service.

• Define payment methods and procedures. We believe that the best option is to keep today's *Bolsa Família* procedures: payment is made through a monthly deposit for families who have bank accounts and through a specific ATM card for those who do not. Depending on the solution found for the public expenditure cap, part may also be paid as a tax rebate by the Federal Revenue Service.

This list should clearly show that there are legal, institutional and operational issues to bring to life either of the two proposals presented here or any other along the same lines. None of these obstacles are insurmountable, but it is necessary to ensure that implementation schedules and investments in information technology are adequate to overcome the challenges.

8 CONCLUSION

In 2003, the Brazilian State accomplished something not many thought possible at the time: it unified four targeted programmes conceived for poor children, bringing bureaucratic silos crashing down and bestowing some rationality on that realm of social protection. But time marches inexorably on, and what once seemed like a good enough solution is no longer so.

Bolsa Família represented a partial rationalisation of social protection. It unified four means-tested programmes that were not enshrined in the Constitution or otherwise difficult to change (such as income tax deductions). It did not unify all programmes targeted at the social risks addressed by its predecessors: childhood and poverty (or at least vulnerability to poverty). In this sense, the *Bolsa Família* unification was something of a low-hanging fruit. As of today, there are two other benefits in Brazil that explicitly target the risks of childhood and youth: the rich man's *Bolsa Família*, also known as the child income tax deduction, and the vaguely contributive *Salário-Família*, which is the *Bolsa Família* for formal workers. In addition, there is also another programme whose reason for existing is vulnerability to poverty, albeit with a very flawed definition, the now unjustifiable *Abono Salarial*.

Given it has been 15 years since the partial rationalisation that gave birth to *Bolsa Família*, it is time to take a step further and create a new framework based on the unification of the

child income tax deduction, *Salário Família* and *Abono Salarial*, as well as *Bolsa Família* itself. Given the variety of forms these four programmes take, we decided to eschew the term 'social assistance', but nevertheless this proposal can be seen as a partial reform of social assistance complementary to social security reform.

Our proposal is based on seven guiding principles: (i) fiscal and social responsibility; (ii) flexibility to adapt to demographic and social changes; (iii) poverty defined as low per capita family income; (iv) use of the *Cadastro Único* as the mechanism for identifying poor households and running the programme; (v) a design with no abrupt benefit cut-offs, along the lines of a negative income tax; (vi) a mechanism for updating benefit values and the eligibility threshold; (vii) and a single eligibility threshold for all grants.

Following these principles, we built a proposal combining universal grants for children with means-tested grants for young children and for families in dire poverty. We estimate that the improvements in administration and targeting from this new proposal would double the impacts on poverty and inequality, even though we would spend the same amount we are spending today. We would double the percentage of Brazilians rescued from extreme poverty from 1.5 per cent to 3 per cent, and the percentage of Brazilians rescued from general poverty from 2.2 per cent to 4.3 per cent of the population. The impacts on inequality would likewise almost double from 11 to 20 Gini points.

An alternative proposal, which includes a new *Abono Salarial*, a youth *Abono Salarial*, a secondary grant and a two-stage ECD grant, is also suggested. The objective is to show that a variety of designs coherent with the seven principles and leading to equally virtuous results are possible.

We are aware of the constitutional, legal and operational challenges that await the implementation of this proposal. These challenges have been identified and discussed in the text, but they will obviously need to be studied in much greater detail by the civil servants charged with implementing the proposal. But none of these challenges is impossible. We already have the *Cadastro Único* and *Bolsa Família*'s payment system, and these will be the cornerstones of the new benefit framework.

Eliminating duplications, coverage gaps and regressive designs, doubling the impacts on poverty and inequality and covering all children in Brazil without spending a penny more is called common sense. Let's do it.

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NOTES

5. We do not mean to ignore or diminish the hardships caused by old age, only to stress the lack of coherence in the social protection system.

6. The FAT is a tax-financed fund which nevertheless falls outside the general revenue budget.

7. In this text we are concerned with deductions for children and youth under 18 years of age, but the legislation allows other deductions such as for dependent mothers and fathers.

8. The number of children and the cost of their deduction from taxable income were estimated by applying *PNAD Contínua* shares to income tax numbers. Although we believe there is no bias, the estimates are not entirely precise.

9. This 2003 unification is definitely one of the inspirations for our present proposal.

10. Such as *Abono Salarial* and *Salário-Família*.

11. According to Sagi, 26.9 million families were in the *Cadastro Único* in 2017. In 2017, according to the 2017 *PNAD Contínua* household survey, there were 69.7 million families in Brazil.

12. This division between children and other dependents is estimated using the *PNAD Contínua*.

13. Legally, a worker whose wage is less than BRL877.67 is entitled to BRL45.00 per child, but since this limit is less than the minimum wage, it becomes a largely theoretical benefit.

14. The Gini coefficient is the most-used measure of income distribution. It ranges from 0, where everyone has exactly the same income, to 1, where a single individual of a large population holds all the income. In the real world, the Gini coefficient varies from around 20, for the most egalitarian societies in the world (such as Denmark), to around 60, for the most unequal (such as South Africa). In other words, the distance between Denmark and South Africa is around 40 points. From Denmark to Brazil it would be around 30 points. This means that a reduction of just a single Gini point would already be a significant reduction in inequality.

15. Another way to see the same data is by looking at their concentration coefficients. The table below shows concentration coefficients for both net and gross income (also called *ex ante* and *ex post* income).

Concentration coefficients

Programme	Net income	Gross income
Per capita income	0.554	0.537
Bolsa Família	-0.629	-0.654
Abono Salarial	0.135	0.117
Income tax deduction	0.861	0.861
Salário-Família	-0.186	-0.207
All	-0.115	-0.231

16. The IGD-PBF is a legally mandated transfer from the federal government to municipalities and states for financing the local management of the *Bolsa Família* programme (Law No. 10.836/2004).

17. The authors do not necessarily agree with this assessment, but we include it to show that the framework proposed is flexible and can accommodate different visions of social protection.

18. Programme eligibility income is quite different from cross-sectional income, but the main difference is that programme eligibility income is best described as the lowest income since the last update of the Cadastro. Updates occur every two to three years.

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