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Covid-19: Public Policies and Society's Responses

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Policy Brief 27

Federal fiscal aid to the states maintained the 2020 tax revenue at the same level as 2019. However, there was an uneven distribution of resources for health. Average expenditure on education dropped by 9%, even in the states with increased ICMS revenues

Main Conclusions

- In 2020, ICMS revenue (*Tax on the Circulation of Goods and Services*) registered a real decline of less than 2% on average, whereas 12 states registered an increase in the collection of this tax.
- The federal financial assistance to states (Complementary Law 173/2020) was more significant than the states' revenue losses. Even states with no tax revenue losses received these transfers.
- Our research found a significant surge in the states' health expenditures, as expected. Furthermore, there was a proportional increase in social assistance expenditures, even though the absolute volume was not significant, suggesting that some states also focused on this sector on top of the federal emergency assistance.
- The lack of a strategy for tackling the pandemic led to an average decline of 9% in education expenditures. Surprisingly, most states registered this decline, including states with ICMS gains. Some states have reduced spending on education by over 20%.

Introduction

Brazil's performance in tackling the COVID-19 pandemic ranks as one of the worst in the world. At the end of February 2021, Brazil had officially registered over 10.5 million infections and almost 260,000 deaths, reaching 1,200 deaths per million inhabitants. The denial of the severity of the pandemic alongside the constant attack on vaccines, isolation measures, and the use of masks, and the promotion of drugs without proven efficacy have marked the federal government's actions. The lack of coordination and strategy prompted the disbandment of the Ministry of Health, the neutralization of Brazil's Unified Health System (SUS), and the dissolution of its technical authority to combat epidemics.

Constant criticism against scientific recommendations and other successful experiences around the world, alongside criminal negligence in purchasing vaccines, resulted in the present tragic reality, and one for which the federal government is the main responsible culprit.

This same pattern repeated itself in socioeconomic policies. The federal government tried to oppose several measures to mitigate the damage caused by the Covid-19 pandemic, such as the emergency basic income program and financial assistance to states and municipalities.

However, the National Congress counteracted and approved bills to ensure emergency financial resources to compensate lost income during the pandemic to individuals and states, and municipalities, which were at risk of being unable to finance their struggle against COVID-19 or even maintain essential public services.

In 2020, R$ 322 billion were earmarked for transfers to individuals, R$ 79.2 billion in aid to states and municipalities, R$ 24.5 billion for the purchase of vaccines, tallying circa R$ 600 billion in federal expenditures for coping with the pandemic. However, there was a complete lack of effective national coordination to carry out these measures.

In this policy brief, we analyze state-level revenues and the allocation of public spending on key public policies, comparing the fiscal behavior of 2020 against 2019. As for expenditures, we provide a more detailed analysis in the areas of health and education[1].

In March 2020, with an ongoing reduction in economic activity amid the pandemic, states and municipalities, already enduring poor fiscal performance since 2014, were exposed to an abrupt drop in ICMS (Tax on the Circulation of Goods and Services) and ISS (Tax Over Services) revenues. Different organizations and research centers projected a 15% to 20% drop in tax revenue on consumption and services. Faced with this scenario, the National Congress approved a federal fiscal aid package in May last year to offset tax revenue losses in states and municipalities and ensure financial conditions to cope with the emergency surge in health expenditures and maintain other public policies.

The federal government is the only entity in a position to provide swift financing and, at a lower cost, centralized debt management and provided resources for the states to preserve and maintain public services in health, education, and social assistance during the pandemic through a decentralized process.

1 The area with the greatest expenditure in the states was Social Security, not addressed in this policy brief, followed by Health, Education, and Special Charges, which includes the payment of debts, an area also not detailed in this policy brief.

The fiscal aid bill was approved through Complementary Law 173/2000 and envisaged the transfer of R$ 60.15 billion to subnational entities. The National Congress also approved measures to maintain the transfer levels of state and municipal participation funds (FPE and FPM, respectively) of up to R$ 16 billion, and federal transfers were earmarked for culture, the Ministry of Health, as well as other ministries. On top of these transfers, the bill also allowed states and municipalities to suspend debt payments to the Federal Government and public and multilateral banks.

The approved fiscal aid was not confined to the loss of ICMS or ISS or any other tax in 2020. The approved bill envisioned transferring four fixed installments to states and municipalities between June and September, based on various criteria[2]. This model led to a mismatch between tax revenue losses and received transfers. Therefore, some states received federal transfers even with tax revenue gains in 2020, as seen in the first half of 2020 after the first installment of the federal aid[3].

Revenues

Brazilian states did not register tax revenue losses forecasted at the beginning of 2020. On the contrary, data from the Siconfi/Ministry of Economy revealed that losses, when applicable, were minor, and most states registered real tax revenue gains. The federal resources transferred exceeded the ICMS losses of the states. Furthermore, the total volume of the states' effectively collected net current revenue grew 2.4% in 2020 compared to 2019.

Table 1 - Comparison between Net Revenue, Transfers, and ICMS Revenue in the States e DF (2019/2020)

	NET REVENUE			OTHER FEDERAL TRANSFERS			ICMS		
State	2019	2020	VAR	2019	2020	VAR	2019	2020	VAR
SP	167.697	165.231	-1,5%	11.053	20.801	88,2%	155.803	149.339	-4,1%
MG	66.964	70.586	5,4%	2.904	6.948	139,3%	54.331	52.524	-3,3%
RJ	61.213	59.498	-2,8%	2.575	4.623	79,5%	38.621	38.693	0,2%
RS	41.577	42.074	1,2%	1.816	4.812	165,0%	38.180	36.371	-4,7%
PR	40.696	40.251	-1,1%	2.559	5.243	104,9%	32.293	31.392	-2,8%
BA	36.086	37.878	5,0%	2.871	5.561	93,7%	25.834	24.902	-3,6%
PE	26.486	27.239	2,8%	2.554	4.511	76,7%	18.077	17.277	-4,4%
SC	26.226	26.861	2,4%	1.450	3.305	127,9%	24.818	23.938	-3,5%
GO	25.648	26.350	2,7%	992	2.305	132,3%	17.795	17.814	0,1%
DF	23.521	25.059	6,5%	3.402	5.044	48,3%	8.543	8.652	1,3%
PA	22.671	24.197	6,7%	1.540	3.958	157,0%	12.753	13.834	8,5%
CE	21.826	22.028	0,9%	1.445	3.262	125,7%	13.742	13.222	-3,8%
MT	17.930	20.482	14,2%	978	2.856	192,2%	11.826	12.826	8,5%
AM	15.660	16.460	5,1%	1.196	2.335	95,3%	10.530	10.841	3,0%
MA	15.363	16.251	5,8%	1.731	2.509	44,9%	8.185	8.144	-0,5%
ES	16.549	15.641	-5,5%	3.919	3.722	-5,0%	11.928	11.925	0,0%

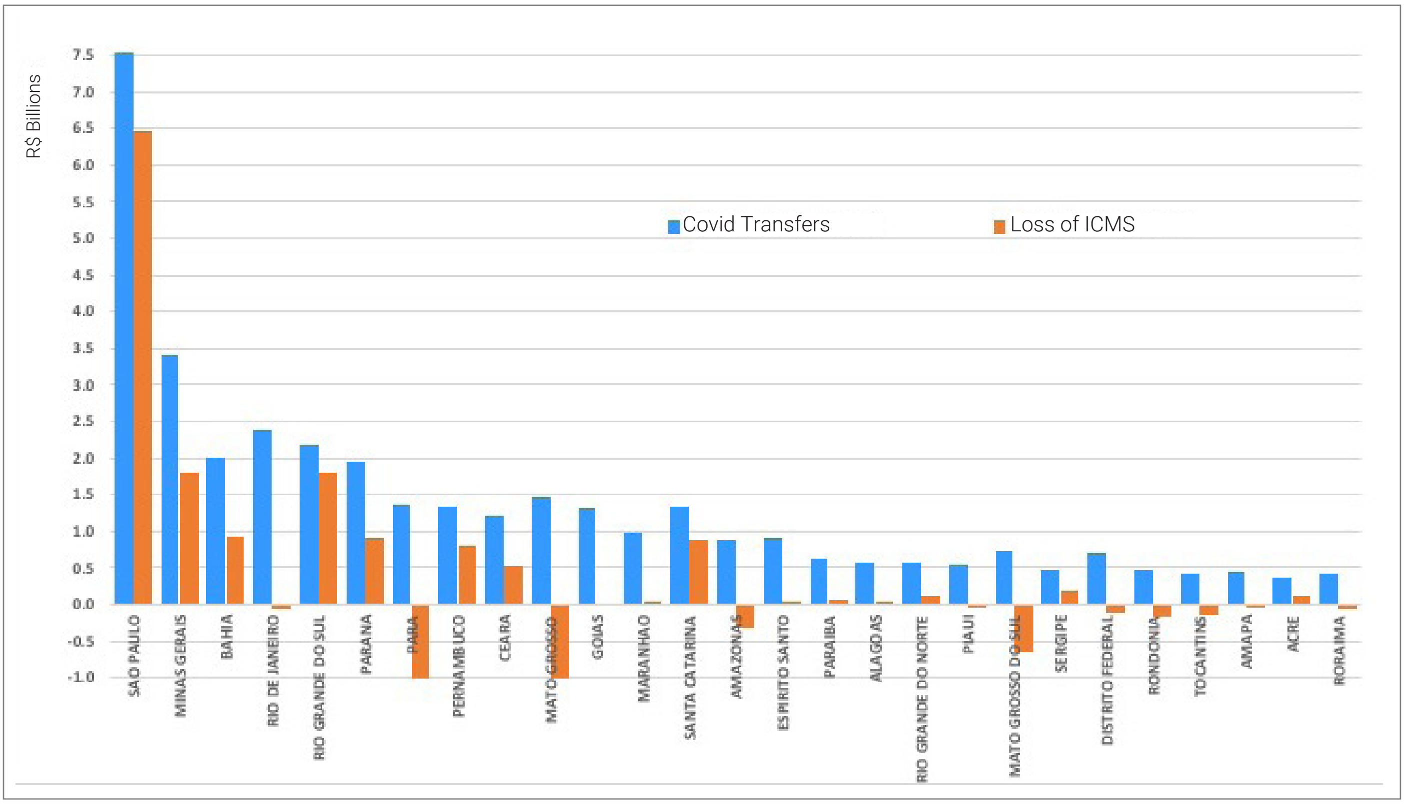
2 Informative note from the Technical Advisory Office of the National Congress. https://bit.ly/3e2DNz8
3 Policy Brief #23 from the Solidarity Research Network. https://bit.ly/3kOtRcu

	NET REVENUE			OTHER FEDERAL TRANSFERS			ICMS		
State	2019	2020	VAR	2019	2020	VAR	2019	2020	VAR
MS	12.555	14.071	12,1%	1.907	2.930	53,6%	9.517	10.161	6,8%
PI	9.899	11.770	18,9%	801	3.308	312,9%	4.683	4.724	0,9%
PB	10.709	11.288	5,4%	486	1.654	240,2%	6.149	6.099	-0,8%
RN	10.638	10.888	2,4%	792	1.726	118,1%	5.999	5.881	-2,0%
AL	8.946	10.059	12,4%	584	1.427	144,4%	4.729	4.695	-0,7%
TO	8.378	8.967	7,0%	593	1.419	139,1%	3.151	3.287	4,3%
SE	8.418	8.725	3,6%	707	1.440	103,6%	3.678	3.498	-4,9%
RO	8.093	8.724	7,8%	606	1.392	129,9%	4.270	4.446	4,1%
AP	5.842	5.947	1,8%	438	1.184	170,3%	988	1.015	2,7%
AC	5.600	5.703	1,8%	553	1.108	100,5%	1.477	1.374	-6,9%
RR	4.390	4.335	-1,3%	340	935	174,9%	1.168	1.240	6,2%
Total	**719.579**	**736.562**	**2,4%**	**50.791**	**100.319**	**97,5%**	**529.067**	**518.116**	**-2,1%**

Source: Prepared by the authors based on data from the Siconfi/ME

While not all states registered this gain, most states had a real higher tax revenue in 2020 than in 2019. Only five states suffered revenue losses, discounted for inflation: SP, RJ, PR, ES, and RR.

Figure 1 - Transfers received by the states and real ICMS loss in 2020



Source: Prepared by the authors based on data from the Siconfi/ME, as a result of LC 173/2020

The federal fiscal aid played an essential role in the Net Current Revenue balance. Federal transfers increased 97.5% when compared to 2019. From this amount, BRL 45.4 billion originated both from Complementary Law 173/2020 and other relief measures to mitigate the revenue downturn prompted by the COVID-19 pandemic. On average, the states' ICMS revenue suffered a real loss of 2.1%, even though 12 states recorded real gains, while some recorded circa 9% real revenue growth in 2020, compared to 2019.

Two situations merit particular attention: i) the current revenue equilibrium in states with tax revenue losses, especially ICMS losses, as registered in SP, MG, PR, ES, PE, and several other states; ii) states with real ICMS gains registered substantial growth in tax revenue compared to 2019, contrary to expected losses during a pandemic year. The ICMS increase was most likely due to an emergency basic income program[4] sanctioned by Law 13.998/2020, which stimulated household consumption and ICMS revenue.

Expenditures

Despite revenue growth, Brazilian states registered a real reduction of 3.5% in total expenditures in 2020 compared to 2019, with wide variations among states. While most states reported small increases or decreases in expenditures, the states of SP, PI, PR, and MT reduced their expenditures by more than 5%. On the other hand, PA, AL, and RO registered an increase of over 5% in their expenditures. The most extreme variations were recorded in PA, with a drop of more than 6%, and PA, with almost an 11% increase.

Table 2 details expenditures by budgetary function and reveals wide variations among public policies, with significant increases in health, transportation, urbanism, social assistance, and culture. Social security, an area that accounts for almost 25% of the states' expenditures, grew 3.6% in real terms. Conversely, spending on education, science and technology, and citizenship rights, and special charges[5] dropped significantly, and other functions with less weight in the total expenditure.

4 Sanches, Marina; Cardomingo, Matias; Carvalho, Laura (2021). *Quão mais fundo poderia ter sido esse poço? Analisando o efeito estabilizador do Auxílio Emergencial em 2020* (Economic Policy Note nº 007). MADE/USP. Available at: https://madeusp.com.br/publicacoes/artigos/quao-mais-fundo-poderia-ter-sido-esse-poco-analisando-o-efeito-estabilizador-do-auxilio-emergencial-em-2020/

5 Expenditures on special charges (which also includes debt payments) were R$ 31 billion lower in 2020 than in 2019. The suspension of debt payment turned out to be a disparate measure, as a handful of states concentrated almost all expenditures of this nature while others renegotiated their debts under the Tax Recovery Regime. The expenditure drop with special charges was particularly relevant in São Paulo (a reduction of R$ 15 billion), PR (a reduction of R$ 9 billion), and MT (a reduction of R$ 1.44 billion, 61.7% of the expenditure in 2019). This meant these states had more resources available for other budgetary purposes when compared to other states.

Table 2 - Annual state expenditures by state and by function (2019/2020)

Function	2019	2020	Variation %
Social Security	179.358	185.902	3,6%
Health	110.233	122.437	11,1%
Education	124.582	113.199	-9,1%
Public security	86.706	84.232	-2,9%
Special Charges	112.722	81.528	-27,7%
Judiciary	46.549	43.931	-5,6%
Management	34.055	33.302	-2,2%
Transportation	23.678	25.251	6,6%
Essential Justice Services	22.543	21.972	-2,5%
Legislative Services	17.801	17.564	-1,3%
Citizenship Rights	14.243	12.989	-8,8%
Agriculture	7.112	6.884	-3,2%
Social Assistance	5.615	6.597	17,5%
Urbanism	4.945	5.891	19,1%
Environmental Management	4.564	4.464	-2,2%
Culture	2.482	3.592	44,7%
Science and Technology	3.818	3.470	-9,1%
Sanitation	2.256	2.265	0,4%
Commerce and Services	2.116	1.992	-5,8%
Housing	1.646	1.669	1,4%
Communications	769	1.013	31,8%
Work	978	821	-16,0%
Sport and Leisure	978	704	-27,9%
Industry	924	657	-28,9%
Agrarian Organization	219	196	-10,7%
Energy	122	144	17,5%
Foreign Affairs	0	0	
TOTAL	**811.015**	**782.669**	**-3,5%**

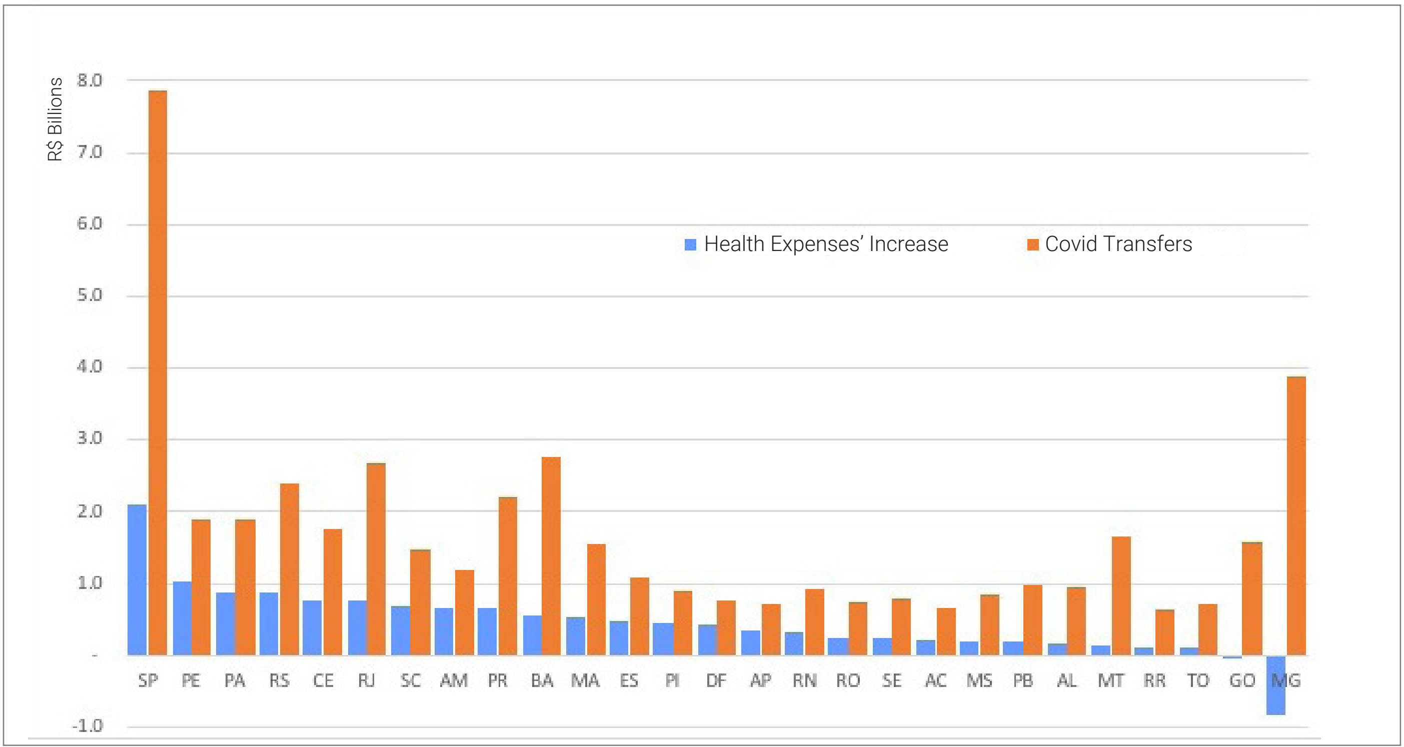
State	2019	2020	Variation %
SP	188.248	175.352	-6,9%
MG	94.996	94.430	-0,6%
RJ	62.129	59.897	-3,6%
RS	49.864	47.846	-4,0%
PR	52.523	44.044	-16,1%
BA	40.714	39.696	-2,5%
PE	28.075	27.889	-0,7%
GO	28.650	27.441	-4,2%
CE	27.348	26.915	-1,6%
SC	27.287	26.426	-3,2%
PA	22.046	24.439	10,9%
DF	23.975	23.422	-2,3%
MT	19.167	18.138	-5,4%
MA	16.747	16.774	0,2%
AM	16.379	16.769	2,4%
ES	14.495	15.175	4,7%
MS	13.281	13.267	-0,1%
RN	12.366	11.840	-4,3%
PI	12.228	11.123	-9,0%
PB	10.677	10.386	-2,7%
AL	9.151	9.770	6,8%
TO	8.892	9.209	3,6%
SE	9.202	9.074	-1,4%
RO	7.607	8.049	5,8%
AC	6.343	6.420	1,2%
AP	4.916	5.111	4,0%
RR	3.713	3.768	1,5%
TOTAL	**811.015**	**782.669**	**-3,5%**

Source: Prepared by the authors based on data from the Siconfi/ME

1. Health Expenditures

The average expenditure on health was 11.1% higher in 2020 than in 2019, an entirely expected scenario amid the pandemic – in almost all states, the most significant expenditure surge was on hospital administration. Nevertheless, the states' expenditure variation is striking compared to the revenue acquired from COVID-19 related federal transfers. The Figure below compares the amount of incremental spending in 2020 against 2019 with the amount received from COVID-19-related transfers by state.

Figure 2 - Health expenditures and COVID-19-related transfers received by the states



Source: Prepared by the authors based on data from the Siconfi/ME

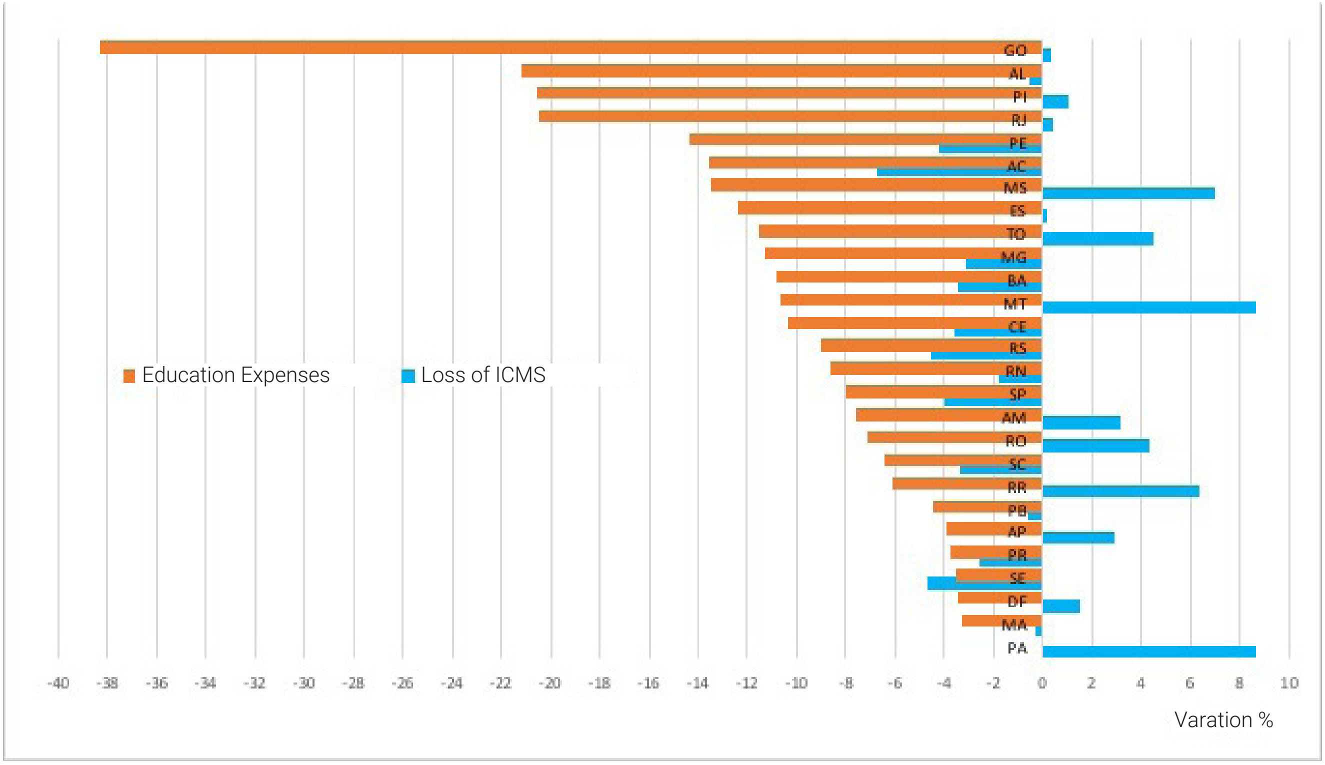
The Figure does not allow us to infer any clear and coordinated relationship between received transfers and incremental spending on health. In other words, Brazilian states allocated federal transfers to health-related policies but also for maintaining other public policies. Even so, given that the focus was on controlling the pandemic, one would expect to find a coordinated use of federal transfers on health. In some states, increased spending on health accounted for circa 50% of the received transfers. Conversely, this percentage was negligible in other states, while others registered a reduction in health expenditures in 2020, despite having received significant transfers.

2. Education Expenditures

Table 2 (above) shows an average reduction of 9% in the states' education expenditures in 2020, compared to 2019. Two factors seem to have caused this reduction: i) the closure of schools, which reduced expenditures for some services; and ii) the reduction in tax revenues, which, when offset by federal transfers, rescinded the requirement to apply 25% in Education Maintenance and Development.

However, as shown above, the revenue decline was lower than expected. Using the ICMS as a tax variation indicator in the states, we find that declines in education expenditures far exceeded this drop, as shown in the Figure below, divided by state. Figure 3 also indicates that expenditure reductions were greater than 20% in GO, AL, RJ, and PI. Furthermore, several states, such as MT, MS, TO, and RR, registered expressive gains in ICMS yet significantly reduced spending on education.

Figure 3 - Variation in education expenditures and variation in ICMS revenue (% 2020/2019)



Source: Prepared by the authors based on data from the Siconfi/ME

With the closure of schools, one would expect state governments to address education difficulties amid the pandemic, with investments in remote education and other emergency expenditures to mitigate educational deficits and prepare for an eventual resumption of in-person classes. However, Figure 3 shows that several states held back on these expenses. And when it became clear, in the second half of the year, that tax revenues would not be as low as projected, there was no longer any time to spend such resources. All these planning flaws now compromise the safe resumption of teaching activities.

Conclusions

Our analysis of the states' revenues and expenditures revealed that it is not enough to transfer federal funds in the lack of coordinated efforts and clear guidelines on how much to transfer and how to use such resources. Our data analysis in this policy brief revealed that some states received more resources without having suffered ICMS losses. Furthermore, their expenditure on health and education did not increase.

Tax revenue behavior in 2020 strayed from the expected, primarily due to the emergency basic income program, which propelled ICMS revenue and prevented further losses for the states.

Along with the reception of federal funds, this situation should have allowed the states to devise a systematic plan for the pandemic, whether in hospital and epidemiological care or organizing basic education policies, for safe care in public schools, among other key policies.

However, that was not what happened. The federal government's delay in transferring resources to the states (which only began in June 2020), alongside the lack of a national coordination strategy for these policies and the increasing uncertainty regarding 2021 revenues with the end of the emergency basic income program, prompted the states to act more prudently and conservatively in their expenditures. Brazilian states have faced enormous difficulties in their fight against the pandemic. The situation is likely to worsen as tax revenues could effectively drop given the uncertainty regarding the emergency basic income program for 2021, which will likely be reduced and last less than 2020. Moreover, there is no prospect thus far of new fiscal aid from the Federal Government.

The severity of the pandemic and an analysis of the budget data for 2020 provide more than enough elements for the federal government to improve its synergy with state governments.

Recommendations

- The country needs federal coordination, and the Federal Government must continue to transfer the necessary resources to states and municipalities, with clear expenditure guidelines for health policies, dependent on actual revenue losses.
- The federal government must urgently resume the emergency basic income program.
- Public data must be transparent. Furthermore, the general public must be able to access complete expenditure statements, thus allowing for more detailed analyses on the use of resources.

ABOUT

We are over 100 researchers, actively engaged in the task of improving the quality of public policies within federal, state, and municipal governments as they seek to act amidst the Covid-19 crisis to save lives. We dedicate our energies towards rigorous data collection, devising substantial information, formulating indicators, and elaborating models and analyses to monitor and identify pathways for public policies and review the responses presented by the population.

The Solidary Research Network has researchers from all scientific fields (Humanities as well as Exact and Biological Sciences) in Brazil and overseas. For us, the combination of skills and techniques is vital as we face the current pandemic. The challenge ahead is enormous, but it is particularly invigorating.

And it would never have come to fruition if it weren't for the generous contribution of private institutions and donors who swiftly answered our calls. We are profoundly grateful to all those who support us.

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