

Budget financialization and permanent austerity: Brazil under the logic of Constitutional Amendment 95

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ABSTRACT: This article examines the effects of Constitutional Amendment No. 95 (EC 95) on consolidating a regime of permanent fiscal austerity and the Public Budget Financialization in Brazil. It argues that EC 95 institutionalized a state model prioritizing fiscal stability over social equity, with negative impacts on sectors such as healthcare, education, and social security. Drawing on critical literature and secondary data, the study reveals a shift toward a liberal welfare regime and proposes alternatives such as progressive tax reform, renewed public investment, and an active industrial policy as necessary strategies to rebuild Brazil's social contract and promote inclusive development.

KEYWORDS: Fiscal austerity; Budget Financialization; Constitutional Amendment 95; Social welfare; financialization; fiscal policy.

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INTRODUCTION

Fiscal austerity policy has become the central axis of Brazilian economic governance, particularly following the enactment of Constitutional Amendment No. 95 (EC 95) in 2016, which imposed a rigid Spending Ceiling on federal Primary Expenditures for twenty years. It is essential to note that this restriction applies specifically to the state's Primary Expenditures, that is, those that exclude interest payments and public debt amortization. This distinction is central to the thesis of this article, as EC 95 institutionalized a state model oriented toward fiscal stability, prioritizing debt servicing over social equity and the capacity to invest in sectors such as healthcare, education, and social security. The justification for this measure rests on the premise that expenditure containment is necessary for the balance of public accounts and economic stability.

As Cardoso (2022) argues, the discursive construction of austerity as the only viable path, disregarding social costs and viable alternatives, has been central to this political-economic debate. This orientation has generated intense academic and political controversy owing to uncertainties about its real impacts on socioeconomic development, social inequality, and the state's capacity to guarantee fundamental rights.

Although EC 95 was designed to last two decades, it was prematurely terminated by Complementary Law 200 of 2023, which established the new fiscal framework. This early termination underscores the polit-

ical unsustainability of the Spending Ceiling within Brazil's democratic context, a fragility that became evident even during the Bolsonaro administration, which resorted to various budgetary maneuvers to circumvent the ceiling's rigidity. The replacement of EC 95 by the new fiscal framework at the outset of the Lula III government marks a turning point in fiscal policy, a brief comparative analysis of which will be undertaken in the course of this article.

This article investigates the intersection between fiscal austerity policies and financialization in Brazil, critically evaluating their effects on the social welfare model. Public Budget Financialization is understood here as a process characterized by the prioritization of debt servicing and the subordination of fiscal decisions to the interests of the financial market. It is argued that this financialization intensifies the negative impacts of austerity by restricting the state's capacity to invest in strategic sectors such as healthcare, education, and social security.

The central hypothesis is that EC 95, beyond imposing severe constraints on public spending, deepened the financialization of government accounts, consolidating an institutional arrangement that privileges short-term fiscal stability at the expense of social equity and sustainable development.

The literature on fiscal austerity is marked by sharp polarization. Orthodox economists, such as Alesina and Ardagna (2010), defend fiscal discipline as an essential condition for macroeconomic stability and economic growth. In contrast, heterodox economists, such as Krugman (2012) and Stiglitz (2010), warn that austerity policies, especially in contexts of crisis, tend to exacerbate recessive dynamics and undermine inclusive growth. In Brazil, despite a growing body of academic work on austerity, there is a gap in the analysis of how this phenomenon interacts with financialization to redefine the social welfare model. This article seeks to fill that gap by analyzing how the combination of austerity and financialization has reconfigured public policies and widened structural inequalities.

The central contribution of this article lies in proposing a critical and integrated reading of the effects of EC 95 through the concept of Public Budget Financialization. It is argued that fiscal austerity, as institutionalized by EC 95, not only restricted fiscal space for social policies but also operated as a vector for deepening state financialization, reconfiguring Brazil's welfare model. By articulating the literature on austerity, financialization, and welfare state regimes, this study offers a comprehensive interpretation of the redistributive and structural impacts of recent Brazilian fiscal policy, evidencing the transition toward an institutional arrangement of a more liberal character, with broad consequences for equity and economic development.

The article is organized into six sections. Section 2 presents the theoretical framework, examining the concepts of fiscal austerity and financialization and their implications for the social welfare model. Section 3 analyzes the impacts of EC 95 on the public budget and discusses how this measure institutionalized the financialization of government accounts. Section 4 explores the sectoral effects of austerity in healthcare, education, and social security. Section 5 examines the political dimension of austerity, highlighting the interests, actors, and narratives that sustain its implementation. Section 6 offers an analysis of the fiscal transition from EC 95 to the New Fiscal Framework, incorporating a discussion of the political unviability of the Spending Ceiling and the alternatives to it. Finally, Section 7 presents the concluding remarks, synthesizing the main findings and discussing alternatives to the prevailing austerity paradigm.

FISCAL AUSTERITY, FINANCIALIZATION, AND THEIR IMPLICATIONS FOR SOCIAL WELFARE

Fiscal austerity is broadly understood as a set of economic policies oriented toward the reduction of the public deficit, either through the reduction of government spending or through revenue increases, often by raising taxes. This approach, historically justified by economists aligned with classical and monetarist schools of thought, postulates that deficit contraction creates an environment conducive to economic stabilization, enhanced market confidence, and, in the long run, the resumption of growth. As Simitis (2016) notes, proponents of austerity tend to attribute economic problems, such as low growth, to eminently structural factors rather than to the fiscal contraction measures themselves.

However, the economic and social impacts of implementing such policies have been the subject of in-

tense and polarized debate. On one hand, defenders such as Medvedev and Seth (2013) acknowledge that, while austerity measures may induce short-term economic depression, they represent a necessary remedy for correcting fiscal imbalances and promoting longer-term sustainable growth. This thesis finds corroboration in Haltom and Lubik (2012), who emphasize that a carefully implemented austerity program, when combined with structural reforms and credible governmental commitments, has the potential to strengthen investor confidence and stabilize the economy. The credibility inherent in such policies, according to the authors, is a crucial factor in mitigating confidence crises and ensuring a favorable context for economic expansion.

The notion of “expansionary austerity” is likewise a recurrent topic among its proponents. According to Alesina and Ardagna (2010), fiscal consolidation can, under certain conditions, generate increased market confidence and stimulate growth, especially when accompanied by structural reforms and rigorous budgetary control. The authors cite cases of economies that managed to adjust their fiscal deficits without incurring damage to growth, highlighting certain European countries in the 1990s as examples. This view, however, faces forceful criticism, particularly from Keynesian economists.

Among the critical voices on fiscal austerity, figures such as Paul Krugman and Joseph Stiglitz have consistently emphasized the risks associated with implementing restrictive measures in contexts of economic recession. For Krugman (2012), austerity policies exert a contractionary effect on aggregate demand by restricting public spending and increasing the tax burden at moments of cooling economic activity. This combination, he argues, tends to prolong economic crises and lead to a vicious cycle characterized by high unemployment and depressed productive investment. Stiglitz (2010) complements this critique by noting that austerity frequently translates into significant cuts in social investments, such as healthcare and education, which in turn deepens social inequalities and undermines long-term human development.

In the specific context of the Brazilian debate, Bresser-Pereira (2007, 2010) argues that excessive fiscal orthodoxy undermines the state’s capacity to act as an engine of economic growth. According to the author, the imposition of rigid Spending Ceilings and the relentless pursuit of primary surpluses reduce the government’s room to invest in infrastructure and development policies, generating a recessive effect. The author further contends that excessive fiscal adjustment in developing countries such as Brazil tends to reinforce a cycle of low productivity and economic stagnation.

Public Budget Financialization, in turn, refers to the growing prioritization of debt repayment and the attainment of primary surpluses over social and productive investment. Bresser-Pereira and Nakano (2002) point out that this dynamic undermines the state’s capacity to act as an inducer of economic development. This process is exacerbated by the actions of actors such as credit rating agencies, which have been an important vector in inducing austerity policies in emerging economies, restricting the space for alternative policies and aligning domestic decisions with the interests of global financial markets, as argued by Machado and Paula (2023).

In Brazil, this logic was intensified following the enactment of EC 95, which institutionalized an extremely rigid fiscal regime with severe restrictions on Primary Expenditures. As a direct consequence, a growing share of public resources has been channeled toward public debt servicing, at the expense of investments considered strategic for the country. Additionally, the offensive against public social protection systems, such as social security, is situated within a broader context of financial dominance, in which the reduction of the state’s role and the opening of new markets for private capital are central objectives (Gentil, 2020).

In this context, Nassif (2018, 2020) discusses how austerity policies, by restricting strategic investments, ultimately deepen the process of deindustrialization in Brazil. For the author, the combination of an austere fiscal regime and the financialization of the economy has resulted in a progressive weakening of national productive capacity, with direct and negative impacts on the generation of quality employment and on long-term economic growth. He further argues that the absence of a robust industrial policy, coupled with severe restrictions on public investment, hampers the resumption of economic growth and aggravates the deleterious effects of financial globalization.

The articulation between fiscal austerity and financialization, as argued, has direct implications for the reconfiguration of the Brazilian social welfare model. To analyze this transition, the classic typology of Esping-Andersen (1990) is employed, which classifies welfare regimes into three ideal models: liberal, conservative, and social-democratic. The core of this typology rests on the concept of de-commodification, which meas-

ures the degree to which the provision of social welfare allows individuals to maintain an acceptable standard of living independently of their market participation.

The Brazilian model has historically been characterized as a hybrid regime or “conservative-clientelist social protection pattern” (Draibe, 1989), with a strong duality between social protection for the formal labor market and targeted programs for the poorest. EC 95, by institutionalizing permanent austerity and prioritizing fiscal stability over social investment, acts as a vector of negative de-commodification. This budgetary constraint pushes the country toward a model with more pronounced characteristics of Esping-Andersen’s liberal regime, in which welfare provision is increasingly delegated to the market and state social protection is residual and strictly targeted. The emphasis on fiscal discipline and the opening of sectors such as social security to private capital are clear manifestations of this shift, reducing the state’s capacity to guarantee social rights and reinforcing the individual’s dependence on the market.

Thus, the articulation between fiscal austerity and financialization can be understood as a complex process that not only restricts the state’s role in the economy but also reconfigures its priorities, promoting a diversion of resources from the productive and social sectors toward the financial sector. This model has been widely criticized in the economic literature, particularly by authors who advocate for an active state in promoting economic development and reducing social inequalities.

Table 1: Comparison of Welfare State Models and the Brazilian Transition

Model	Primary Characteristic	Role of the State vs. Market	Impact of EC 95 in Brazil
Social-Democrat	High de-commodification	State provides universal services; minimizes market dependence.	The 1988 Constitutional ideal now being systematically dismantled.
Conservative	Dualistic/Clientelist	Protection linked to formal labor; state maintains status differentials.	Historical Brazilian hybrid; currently undergoing regressive reform.
Liberal	High commodification	Residual state role; welfare is means-tested and market-driven.	Target Direction: EC 95 acts as a vector pushing Brazil toward this residual model.

Sources: Prepared by the author, adapted from Esping-Andersen (1990) and Draibe (1989).

THE AUSTERITY SCENARIO: CONSTITUTIONAL AMENDMENT 95 AND THE INSTITUTIONALIZATION OF PUBLIC BUDGET FINANCIALIZATION

The trajectory of fiscal austerity in contemporary Brazil reflects a transition from developmentalist policies toward restrictive measures aligned with neoliberal precepts. This inflection intensified following the 2008 crisis and during the administrations of Dilma Rousseff, Michel Temer, and Jair Bolsonaro, all of which prioritized public spending containment and debt reduction as central elements.

The consolidation of this agenda gained momentum during the Rousseff government, culminating in the “Uma Ponte para o Futuro” program in 2015. The 2016 impeachment represented a turning point, paving the way for more aggressive austerity policies. The approval of EC 95 marked the convergence of Brazilian economic policy with the neoliberal agenda, receiving endorsement from credit rating agencies (Machado and Paula, 2023).

The Fiscal Responsibility Law (2000) established limits on public indebtedness and fiscal management. Critics such as Fagnani (2018) argue that this approach resulted in budgetary cuts in strategic areas for social development, providing a legal basis for austerity policies that restricted the state’s role in combating inequalities.

EC 95, approved in 2016, is considered the apex of fiscal austerity policies in Brazil. It established a rigid ceiling for federal Primary Expenditures for twenty years, allowing adjustment only for inflation. Castro and

Santos (2021) highlight that the amendment, by freezing expenditures in real terms, disregards population growth and growing demands for public services, thereby compromising investments in healthcare, education, and infrastructure. Funcia and Ocke (2018) observe that, while expenditures on debt servicing remain untouched, cuts fall disproportionately on social programs, institutionalizing Public Budget Financialization.

The implementation of these policies generated significant adverse effects. According to Pinho (2022), the budgetary reforms since 2016 prioritize fiscal stability at the expense of social equity. The country experienced a prolonged recession, followed by anemic growth, rising unemployment, and an expansion of poverty (Castro and Santos, 2021).

Fiscal austerity in Brazil is linked to high interest rates and exchange rate appreciation, factors that limit productive growth (Bresser-Pereira and Nakano, 2002). The combination of fiscal austerity and high interest rates reduces the space for strategic public investment, deepening economic stagnation.

Nonetheless, the justification for austerity policies rests on the alleged need to rebalance public accounts and promote investor confidence. However, evidence suggests that austerity can deepen crises and widen inequalities. This “austerity paradox” occurs because the retraction of public investment reduces aggregate demand, slowing growth and expanding unemployment (Stiglitz, 2010; Krugman, 2012).

The Brazilian case illustrates this paradox. Since EC 95, the country has experienced low economic growth, with annual GDP rates below the global average. According to IPEA (2023), between 2017 and 2022, the average growth rate was a mere 1.4% per year, accompanied by rising unemployment, which peaked above 14%.

Nassif (2021) argues that the state’s role as an inducer of development was weakened by austerity policies. The reduction of investments in infrastructure, science, and technology compromises long-term productive capacity, aggravating deindustrialization and limiting the generation of quality employment.

Fiscal austerity exerts a regressive impact on income distribution, as budgetary cuts primarily affect public services and social programs, disproportionately impacting vulnerable groups (Fagnani, 2018). Another significant effect has been the expansion of informality in the labor market (Pochmann, 2019).

The impacts of austerity can also be observed in the deterioration of human development indicators. Brazil’s Human Development Index (HDI), for instance, showed a worrying stagnation in the post-2016 period, reflecting the deceleration of progress in crucial areas such as education and healthcare. Table 2 presents the evolution of Brazil’s HDI between 2004 and 2022, highlighting the tendency toward deceleration following the implementation of EC 95. The stagnation in Gross National Income per capita, one of the HDI’s components, indicates that austerity was not accompanied by a substantial economic recovery, reinforcing the argument that such policies may have adverse effects on long-term growth and population welfare.

Table 2: Evolution of Brazil’s HDI and Economic Stagnation (2010-2022)

Year	HDI Value	GNI per capita (US\$ PPP)
2004	0,699	10.850
2006	0,720	12.040
2008	0,730	12.890
2010	0,727	13.260
2012	0,740	14.080
2014	0,755	15.210
2016	0,761	14.890
2018	0,765	14.560
2020	0,762	13.870
2022	0,765	13.920

Source: Adapted from PNUD (2023).

THE MULTIDIMENSIONAL IMPACTS OF AUSTERITY AND FINANCIALIZATION IN POST-EC 95 BRAZIL

EC 95, by imposing a ceiling on the federal government's Primary Expenditures, unleashed a process of severe restriction on public investment that disproportionately affected areas essential to guaranteeing social welfare, such as healthcare, education, and social security. Under Article 6 of the 1988 Federal Constitution, these are fundamental social rights whose provision is the responsibility of the state.

Impacts on Healthcare

The chronic underfunding of the Unified Health System (SUS) was aggravated by EC 95. According to the World Health Organization, public health spending in Brazil (3.9% of GDP in 2019) was already far below that of countries with comparable universal systems, such as Canada (7.6%) and the United Kingdom (8.1%), while private health spending in Brazil reached 5.7% of GDP, considerably above the global average (Funcia *et al.*, 2022).

Still according to the authors, the budgetary losses for Public Health Actions and Services (ASPS) resulting from EC 95 were substantial. Between 2018 and 2022, cumulative losses to the federal health budget totaled R\$ 59.6 billion when compared to the previous funding rule (EC 86).

According to the data underpinning this analysis, these annual losses were approximately R\$ 4.0 billion in 2018, R\$ 13.6 billion in 2019, R\$ 27.7 billion in 2021, and R\$ 12.7 billion in 2022. The year 2020 presented an atypical result, with an apparent gain of R\$ 21.0 billion, possibly influenced by the dynamics of Net Current Revenue (RCL) and the extraordinary COVID-19 pandemic credits, which may not have been fully excluded from the ASPS expenditure calculation base without extraordinary credit Provisional Measures. Nevertheless, the trajectory in the remaining years and the substantial cumulative total of R\$ 59.6 billion in losses clearly demonstrate the significant compression of federal SUS funding imposed by EC 95.

This reduction in resources has direct consequences on service delivery capacity, quality of care, acquisition of supplies, and the remuneration of professionals, contributing to the growth in demand for private health plans among those who can afford them, and deepening the segmentation and inequality in access to healthcare.

Impacts on Education

In the field of education, the impacts of EC 95 were equally severe. There was a stagnation and, in real terms and as a share of GDP, a declining trend in federal investments in Education Maintenance and Development (MDE) from 2016 onwards. Although there had been a significant effort to finance education in previous governments, with expenditure above the constitutional minimum, EC 95 reversed this trend. The gap between executed spending and the constitutional minimum began to narrow, and in 2021, federal MDE spending fell to 17.9% of Net Tax Revenue (RLI), below the former minimum floor of 18%. In 2022, data indicated an even lower execution of just 16.67% of RLI (Resende and Dweck, 2022).

As Resende and Dweck (2022) demonstrate, despite nominal growth in absolute values in certain years, expenditures as a share of GDP and relative to the constitutional minimum exhibit a clear trend of compression from 2016 onwards. Specifically, federal MDE spending fell to 17.9% of RLI in 2021 and retreated to 16.67% of RLI in 2022, evidencing a significant setback in public education financing.

These cuts compromise the state's capacity to expand access, improve the quality of public education at all levels, and invest in school and university infrastructure, especially in less developed regions, while also driving the expansion of the private sector and student indebtedness.

Impacts on Social Security

In the realm of social security, the impacts of austerity and financialization are particularly severe. At the broader level, changes to Brazil's social security system must be understood in light of the process of financial globalization, which pressures national states to open new fronts of accumulation for capital. In this context, public social security, owing to its volume of resources and redistributive character, becomes a

strategic target for reforms that seek to reduce the coverage and generosity of benefits. This creates space for the expansion of private markets, especially in the supplementary pension sector, transferring individual risks to workers and commodifying rights previously guaranteed collectively.

Between 2006 and 2019, there was a significant expansion of open pension funds, driven by the growing channeling of household savings into this type of financial investment. According to data from ANBIMA, compiled by Gentil (2019), the volume of resources accumulated by these funds jumped from R\$ 146 billion in 2006 to R\$ 910 billion in 2019, an increase of more than sixfold over the period. This amount came to represent approximately 13% of Gross Domestic Product (GDP), evidencing the advance of financialization transformed into supplementary pension provision in Brazil.

This restructuring process serves the specific interests of economic elites, who have promoted successive reforms under the guise of fiscal sustainability. However, such changes mean, in practice, the regression of rights historically achieved in the sphere of labor. Public social security systems, originally conceived in a context of industrial capitalism and strong union presence, have been disfigured in the name of a fiscal rationality subordinated to international financial logic.

It must also be noted that another significant effect of fiscal austerity in Brazil has been the expansion of informality in the labor market. The reduction of investments in strategic sectors, such as infrastructure and industry, limits the generation of formal employment, pushing a significant portion of the workforce into precarious activities without social protection (Pochmann, 2019). This phenomenon has profound implications for social security revenue collection and for the sustainability of the social security system, as the contributory base shrinks while the demand for social benefits increases.

Thus, the weakening of public social security, driven by austerity-oriented reforms, directly results in increased insecurity and poverty in old age, reversing historical achievements in social protection (Gentil, 2020). The pressure for reforms that reduce benefits and tighten access rules, often justified by fiscal crisis narratives, aligns with the interests of expanding the private pension market, deepening the logic of financialization at the expense of social solidarity.

THE POLITICAL DISPUTE OVER AUSTERITY AND SOCIAL WELFARE IN BRAZIL

Brazil's transition toward a progressively more liberal social welfare model, driven by fiscal austerity, cannot be understood as a spontaneous or merely technical phenomenon dictated by an alleged inescapable economic necessity. On the contrary, the implementation and maintenance of fiscal austerity policies in Brazil do not occur in a political vacuum, but are the result of an intense dispute among different social, economic, and political actors, each with their own interests and visions regarding the state's role and the path to development. The dispute over austerity is marked by the prominence of narratives that present it as technically neutral and inevitable, obscuring its political dimensions and the existing alternatives, a phenomenon analyzed by Guilherme Cardoso in "A retórica da austeridade" [The rhetoric of austerity].

Therefore, EC 95 must not be viewed merely as a fiscal control instrument, but fundamentally as a mechanism of political engineering designed to force through a liberal-oriented structural reform agenda. By imposing a rigid and unsustainable ceiling on Primary Expenditures for twenty years, EC 95 created an artificial and permanent fiscal scarcity whose only apparent "solution" is the disallocation of revenues, the privatization of public services, and the approval of reforms that reduce the state's social obligations. The Social Security Reform (EC 103/2019) is the most emblematic example of this pressure, as the narrative of its "unavoidable necessity" was directly driven by the budgetary rigidity imposed by the Spending Ceiling. This dynamic confirms the thesis that austerity, by redefining fiscal space, acts as a vector for consolidating a markedly liberal welfare model, as discussed in Section 2.

In this arena of dispute, actors such as credit rating agencies play a significant role, not merely as technical evaluators but as political influencers that actively promote the austerity and structural reform agenda aligned with the interests of the financial market (Machado and Paula, 2023). The influence of these agencies transcends the purely economic sphere, manifesting itself at crucial moments in the national political dispute, as observed by the authors in analyzing the recent Brazilian context, including interventions during electoral processes and periods of political instability that condition domestic policy space.

Since the 1990s, international organizations such as the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD) have consistently recom-

mended the adoption of austerity policies as a condition for macroeconomic stability in emerging countries. In Brazil, these directives found resonance and were progressively adopted, especially in moments of fiscal crisis or external vulnerability, generally in response to rising public debt and financial market volatility. These recommendations, however, are not neutral; they carry a specific model of development and insertion into the global economy that frequently prioritizes the interests of international financial capital over the needs of domestic social development.

The political rupture of 2016, with the impeachment of President Dilma Rousseff, represented a turning point, opening significant political space for the adoption of even more severe and far-reaching austerity measures. The government of Michel Temer, which took power in this context, drastically deepened the fiscal adjustment, culminating in the approval of EC 95, which froze primary public spending for twenty years. Subsequently, the Bolsonaro government continued this agenda, implementing, among other measures, the 2019 Social Security Reform, which reduced the scope and generosity of the public pension system while simultaneously encouraging the expansion of private pension provision.

With regard to pension reforms in particular, one of the pillars of fiscal adjustment, the narrative of an imminent collapse of public social security is frequently mobilized to justify restrictive measures. This argument, however, often conceals the financial sector's interests in expanding private pension funds and disregards the importance of social security as a pillar of welfare and an instrument for reducing inequalities, as Gentil (2020) notes.

In the economic sphere, the growing financialization of the Brazilian economy has been a crucial factor in legitimizing and prioritizing fiscal austerity. The advance of the financial sector in public policy formulation has resulted in increasing influence of banks, investment funds, credit rating agencies, and economic consultancies over governmental decisions. Civil society organizations aligned with a neoliberal perspective, such as Instituto Millenium, and various business groups, particularly from the financial sector, have exerted strong pressure for the maintenance of the Spending Ceiling and for the continuous reduction of the state's role in the economy and in the provision of social services.

While these sectors advocate fiscal rigor and budgetary balance as guarantees of economic stability and a favorable business environment, critical voices, including social movements, trade unions, and a significant portion of academia, point out that the containment of spending, as implemented, reduces the state's capacity to promote sustainable growth, social welfare, and the reduction of the deep inequalities that characterize the country. Brazil, by opting for a severe fiscal adjustment without robust counterparts of economic stimulus or effective social protection, not only compromised its development trajectory but also deepened inequalities and the vulnerability of vast segments of its population.

Austerity in Brazil has not affected all sectors and social groups uniformly. While social spending and public investments have been systematically reduced, the payment of interest and public debt amortization has continued to be an unquestionable priority, directly benefiting creditors and the financial sector. This logic reflects a process of state disengagement from its social duties, in which risks are increasingly transferred to individuals and families, and essential services such as healthcare, education, and social security become progressively commodified, fully accessible only to those who can afford to pay.

Understanding this political dimension is fundamental to the discussion of alternatives. Overcoming the austerity paradigm depends not only on the formulation of technically sound economic proposals but also on the construction of a new political and social balance of forces capable of reorienting state priorities in favor of inclusive development and the guarantee of rights.

FROM THE RIGIDITY OF THE SPENDING CEILING TO THE MODULATION OF THE NEW FISCAL FRAMEWORK: IMPLICATIONS AND ALTERNATIVES

The early revocation of EC 95, replaced by Complementary Law 200/2023 (New Fiscal Framework), does not represent the end of austerity, but rather a modulation of its regime. EC 95, by imposing a fixed Spending Ceiling corrected only for inflation, proved to be a politically unsustainable and economically dysfunctional fiscal instrument, as demonstrated by the need for successive budgetary maneuvers to guarantee the minimum functioning of the state.

The New Fiscal Framework, in turn, seeks to introduce a more flexible spending rule tied to revenue

growth, while still maintaining the principle of austerity by limiting real expenditure growth to 70% of real growth in primary revenue. Although it represents an advance over the absolute rigidity of the Spending Ceiling, the new fiscal regime still imposes significant constraints on fiscal space for social policies and investments. The main difference lies in the capacity to accommodate economic growth; whereas EC 95 prevented real expenditure growth even in scenarios of high revenue collection, the New Framework allows for limited real growth, mitigating the artificial scarcity that forced the liberal reform agenda. Nonetheless, the logic of financialization, which prioritizes the primary surplus and debt servicing, remains a central challenge.

Faced with the negative impacts of fiscal austerity in Brazil, it becomes imperative to explore and debate alternatives capable of reconciling fiscal responsibility with the promotion of robust, sustainable, and socially inclusive economic growth. International experiences and the critical economic literature indicate that more flexible fiscal policies, when carefully designed and combined with public investment strategies, progressive tax reforms, and active industrial policies, can offer a more promising path to development (Stiglitz, 2010; Krugman, 2012; Mazzucato, 2013).

The fundamental premise for the viability of any alternative development strategy is the revision of a fiscal statute centered on austerity. The Spending Ceiling, by its rigidity and long duration, demonstrated incompatibility with the funding needs of a welfare state and with the investment demands of a developing country with Brazil's deficiencies. Its replacement by a fiscal regime that simultaneously promotes long-term public debt sustainability while allowing for the recovery of public investment and the implementation of countercyclical policies is an essential condition. New fiscal rules could, for example, establish primary balance targets adjusted to the economic cycle, protect strategic public investments from indiscriminate cuts, or link expenditure growth to indicators of social and economic development rather than merely to past inflation.

One of the most consistently debated alternatives to counter fiscal adjustment based predominantly on spending cuts is the adoption of a comprehensive and progressive tax reform. The Brazilian tax system is notoriously regressive, characterized by the high incidence of indirect taxes on consumption, which proportionally penalize the poorest, and by low taxation on the income and wealth of the richest (Castro and Santos, 2021). Unlike most developed countries, where direct taxation on income and wealth plays a central role in financing public spending and reducing inequalities, in Brazil, high-income and high-net-worth segments contribute proportionally less.

The implementation of measures such as the taxation of profits and dividends distributed to individuals (currently exempt), the creation of a tax on large fortunes (provided for in the Constitution but never regulated), the revision of personal income tax brackets and rates to ensure greater progressivity, and increased taxation on inheritances and gifts could generate significant revenues. These additional resources would be fundamental for financing the necessary social and infrastructure investments without compromising long-term fiscal balance, while simultaneously promoting greater fiscal justice.

A crucial alternative for reversing the impacts of austerity is the vigorous and strategic resumption of public investment. Numerous studies demonstrate that state investment in infrastructure (energy, transport, sanitation), education, healthcare, science, and technology generates significant multiplier effects on the economy, boosting GDP growth, employment generation, and productivity increases (Nassif, 2021; Mazzucato, 2013). Countries such as Germany and South Korea, at different historical moments, adopted strategies of expanding public investment during economic crises, which contributed to the greater resilience and long-term competitiveness of their economies.

In Brazil, the drastic reduction of public investments in recent years, intensified by EC 95, resulted in a marked deterioration of existing infrastructure and the paralysis of new projects, limiting the competitiveness of industry, the capacity for innovation, and the quality of life of the population. The reactivation of public investment, financed by a combination of budgetary resources (derived, for example, from tax reform), credit from public development banks, and strategic partnerships with the private sector (where appropriate and with adequate regulation), is essential to stimulate aggregate demand in the short term and expand productive capacity in the long term.

Finally, overcoming the framework of stagnation and the resumption of economic development in Brazil necessarily entail the adoption of an active and modern industrial policy that stimulates innovation, productive diversification, and the competitiveness of the national economy in higher value-added sectors. The

country faces an accelerated and concerning process of premature deindustrialization, aggravated by a lack of consistent investment in research and development (R&D), the low integration of Brazilian industry into global value chains in more sophisticated segments, and a business environment that is often adverse to innovation (Nassif, 2021).

A new industrial policy should focus on strengthening strategic sectors, promoting the transition to a low-carbon economy, stimulating digitalization, and reducing regional disparities. This would involve the coordinated use of diverse instruments, such as subsidized financing for innovative projects, strategic government procurement, fiscal incentives for R&D, the strengthening of science and technology institutions, and policies for developing qualified human capital. The adoption of innovation incentives and the strengthening of national industry are essential to reverse deindustrialization and ensure greater dynamism and competitiveness for the Brazilian economy on the global stage.

CONCLUSION

The analysis undertaken in this article sought to unravel the complex interconnections among fiscal austerity, financialization, and their impacts on social welfare in Brazil, especially in the period following the enactment of EC 95. The results indicate that austerity, far from being a purely technical solution to fiscal imbalances, constitutes a political choice with profound distributive and social consequences. In sum, the fiscal crisis and the austerity policies implemented in Brazil transcend the purely economic dimension, revealing deep political and social implications that reconfigure the social contract and citizenship rights, as underscored by Cardoso (2022).

The analysis of fiscal austerity in Brazil, particularly from the implementation of EC 95, reveals a complex picture of challenges and contradictions. Although justified as an indispensable strategy to contain the growth of public debt and ensure macroeconomic stability, the evidence and data analyzed throughout this study demonstrate that its consequences were broadly negative for economic growth, for the generation of quality employment, and for the reduction of the deep social inequalities that characterize the country. The central hypothesis that EC 95 not only restricted spending but also deepened the financialization of government accounts, consolidating an institutional arrangement that prioritizes fiscal stability over social equity, finds strong support in the results presented.

EC 95 triggered a structural compression of social investments, the implications of which were analyzed in this article not only in quantitative terms but above all in light of its capacity to reconfigure the social contract and accentuate the regressive character of the prevailing welfare model.

The reduction of resources destined for SUS, for example, not only compromised its service delivery capacity but also contributed to the growth of private medicine and to the deepening of system segmentation, making access to quality healthcare increasingly dependent on the individual's ability to pay.

In education, the stagnation and real decline of federal investments compromised the expansion and quality of public education at all levels, intensifying the privatization of the sector and making it more difficult for poorer segments of the population to access transformative educational opportunities. In the social security field, the reforms implemented under the austerity banner encouraged adherence to private funds, diminishing the coverage and generosity of the public system and reinforcing the logic of financialization of social security.

Another central aspect discussed was the reconfiguration of the social welfare model in Brazil. Based on Esping-Andersen's (1990) typology, it was found that fiscal austerity accelerated the country's displacement toward a predominantly liberal welfare state model. In this model, the provision of social services becomes increasingly dependent on the market, reducing the state's role and widening inequalities as essential services become progressively commodified.

The investigation also highlighted that the austerity policy adopted in Brazil did not yield the promised economic recovery. On the contrary, the retraction of public investments restricted aggregate demand, weakened the productive sector, and deepened the formal employment crisis, confirming the "austerity paradox". Brazil's "mediocre" economic performance in the post-2016 period, inferior to that of comparable emerging economies, reinforces the thesis that contracting public spending in contexts of low growth can generate a recessive effect and delay recovery.

The political dimension of this process was also highlighted, evidencing that the adoption and mainte-

nance of austerity result from interest disputes and the influence of certain economic actors and international organizations, rather than from a technical inevitability. Overcoming this paradigm therefore requires not only the formulation of consistent economic alternatives but also the construction of a new political hegemony.

In synthesis, this study supports four main propositions: (i) EC 95 operated as the institutional benchmark of long-term austerity in Brazil, with a structural impact on the state's capacity to promote equity; (ii) Public Budget Financialization narrowed the space for redistributive policies and favored rentier interests; (iii) the Brazilian social welfare model was displaced toward a more liberal configuration, with growing commodification of social rights; and (iv) alternative policies such as progressive tax reform, expansion of public investment, and revision of the fiscal framework are viable and necessary to rebuild the state's capacity to promote development with social justice.

As Bruno (2024) summarized in analyzing the dangers of financialization under the guise of austerity:

"If the State, guided by the ideology of fiscal austerity, refrains from increasing public investment and from implementing countercyclical demand stimulus measures, it will further promote the unproductive capital allocations that are the basis for the reproduction of financialization processes. Consequently, the Brazilian State acts as a safe harbor in a true 'financial paradise' for a minority of billionaires, mostly rentiers, while penalizing the middle and lower-income classes with various ultra-liberal reforms, such as labor, pension, and administrative reforms, in addition to other reforms and policies that also reduce social welfare and degrade the living conditions of the majority of the Brazilian population."

Finally, the Brazilian experience with a fiscal austerity agenda conclusively demonstrates the limitations and costs of this approach in promoting sustainable economic growth and reducing inequalities. The adoption of an articulated set of alternatives, including progressive tax reform, the resumption of public investment, an active industrial policy, and, fundamentally, the revision of fiscal austerity policies, may represent a more balanced and promising path for the country's development. The evidence presented throughout this article demonstrates that excessively restrictive fiscal policies not only compromise long-term growth but also aggravate social and regional inequalities. A paradigm shift in Brazilian fiscal and economic policy is therefore essential to ensure a more prosperous, just, and sustainable future.

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NOTE

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The author has no conflicts of interest to declare.

DATA AVAILABILITY

The entire dataset supporting the findings of this study is published within the article.

AUTHORS' CONTRIBUTION

Jairo Mariano da Costa Júnior: Conceptualization; Data curation; Formal analysis; Funding acquisition; Investigation; Methodology; Project administration; Resources; Software; Supervision; Validation; Visualization; Writing – original draft; Writing – review & editing.