



The Public Spending Cap in Brazil and the Impacts of the COVID 19 Pandemic: A fiscal policy analysis using the Advocacy Coalition Framework

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Abstract

The objective of this paper is to analyse the external shock caused by the Covid-19 pandemic and its impact on public spending cap policy. The Advocacy Coalition Framework (ACF) was applied to map political actors and to verify if their policy core beliefs had changed with the external shock of the Covid-19 pandemic. The collection of data relied on documentary analysis of official documents and academic texts, as well as news and articles published in four Brazilian communication outlets. The analysis indicated that the resulting external shock was insufficient to significantly affect the policy core beliefs of the existing coalitions around fiscal policy in Brazil. This is also the conclusion we reached when contrasting the Brazilian case with the European Union's fiscal consolidation measures in the same period.

Keywords

Fiscal Policy; Public Spending Caps; Advocacy Coalition Framework; Pandemic Sars-CoV-2 Covid-19; Fiscal Consolidation

Introduction

Fiscal policy is a public policy that encompasses measures related to revenue, expenditure, budget execution, deficit and public debt, and their consequent impacts on the economy. It is a macroeconomic policy instrument that generates consequences and establishes conditions for the execution of other public policies.

In summary, the public problem in the fiscal area resides in the following triad: a) definition of the exact measure of directing part of the private wealth to the government, b) need to ensure the correct destination of financial resources collected from society, and c) maintenance of the functionality of public accounts and the economy (Catarino, 2022). Fiscal policy comprises the use of State resources (public revenues) and public expenditures with the purpose of influencing the behaviour of economic agents, and the allocation of resources, with the general objective of promoting growth and increasing collective welfare and, when necessary, of promoting macroeconomic stabilisation (in articulation with other public policies, such as monetary, exchange rate, and credit policies) (Musgrave & Musgrave, 1989).

It is understood that there is a two-way relationship between fiscal policy and other public policies, because the "formal mechanisms to guarantee the constitutionally adequate funding of fundamental rights, however, are not sufficient in isolation for their effective protection, when separated from the other instruments of fiscal, tax, budget and public spending control policies" (Pinto & Ximenes, 2018). Even the so-called negative rights, traditionally associated with a duty of abstention by the state, require a public apparatus for their protection, such as police and justice institutions to act in the event of violations to the life, freedom, and property of citizens, with costs to the public budget (Holmes & Sunstein, 2019).

Public policies depend, to some extent, on the intentions set for fiscal policy according to the logic of economic science. The issue of public debt is related to fiscal policy: a public problem that requires a governmental response based on technical expertise in the area of fiscal policy and economics.

Since the 1970s, the ideas of the so-called New Macroeconomic Consensus have gained space in the economic debate, for which fiscal policy is neutral with regard to employment and income and its function is to ensure stability to the expectations of economic agents, so that they trust the macroeconomic policy in the long term (Além, 2018). One of the tools for this is the fiscal effort to preserve the state's ability to honour its commitments, which would maintain the public debt/GDP ratio and ensure investors' expectations (Catarino, 2022). Such factors would allow the reduction of interest rates (Lopes & Mollo, 2011).

The economic crisis hitting Brazil, reinforced by the pandemic crisis, has worsened the public debt picture. The net public sector debt (DLSP - gross debt minus assets) interrupted a downward trajectory of more than a decade, from a level of 60% of GDP in January 2003 to 31.5% in January 2014 (Mendonça et al., 2016), while the gross debt (DBGG) has shown increasing behaviour (Mendonça et al., 2016). Since then, there has been a reversal of the trend. In January 2021, the DLSP represented 61.6% of GDP. The DBSP reached the 89.7% of GDP (Banco Central do Brasil [BACEN], 2021).

With Constitutional Amendment No. 95 (2016), Brazil approved what was called the New Fiscal Regime, whose anchor is the public spending cap regime. This intends to control the public debt/GDP ratio and thereby maintain market confidence in the liquidity of Brazilian public debt securities. The loss of credibility of these securities could force the government to issue currency to meet its commitments or compulsorily extend the terms of the public debt (Lanzana, 2016).

The Covid-19 pandemic has shaken the world economy, and its consequences are of difficult-to-measure intensity and durability. Governments have increased their public spending. In Brazil, Constitutional Amendment No. 106 (2020) created the so-called "War Budget," an exception to the normal fiscal policy regime, effective for the period of the calamity decreed by the National Congress. Subsequently, the Senate and the House of Representatives approved Constitutional Amendment No. 109 (2021).

Objectives and methodology

This research seeks to analyse the external shock caused by the pandemic and its impact on the implementation of the Brazilian fiscal policy, especially regarding the public spending cap policy. Using the analytical model of the *Advocacy Coalition Framework* (ACF), the general objective is to analyse whether the pandemic altered the belief systems shared by advocacy coalitions linked to the field of fiscal policy. Punctually, we confront the behaviour of the beliefs that support it with the belief in the long-term financial stability superiority of fiscal policy in the European Union.

To operationalise the study, we undertake a documentary analysis of official documents and academic texts, as well as news and articles published by the following Brazilian communication outlets: *Globo*, *Folha de São Paulo*, *Valor*, and *Infomoney*. The first two were chosen because they are well known and widely accessible to the general public, the latter because they convey information directed at the financial market public. We adopt as initial term the month of June 2016, when Constitutional Amendment No. 241/16 was proposed (which culminated in the approval of the New Fiscal Regime) and final March 2021, month of the approval of the Constitutional Amendment No. 109/2021. From the document analysis, a series of theoretical and empirical relations were performed between the ACF model and the reality of the fiscal policy subsystem and its advocacy coalitions, leading to the categorisation of beliefs, basic design of fiscal policy subsystem coalitions, and initial impacts of an external shock (pandemic and the consequent economic and fiscal crisis) on belief systems and the course of public policy.

Foundations of the Advocacy Coalition Framework

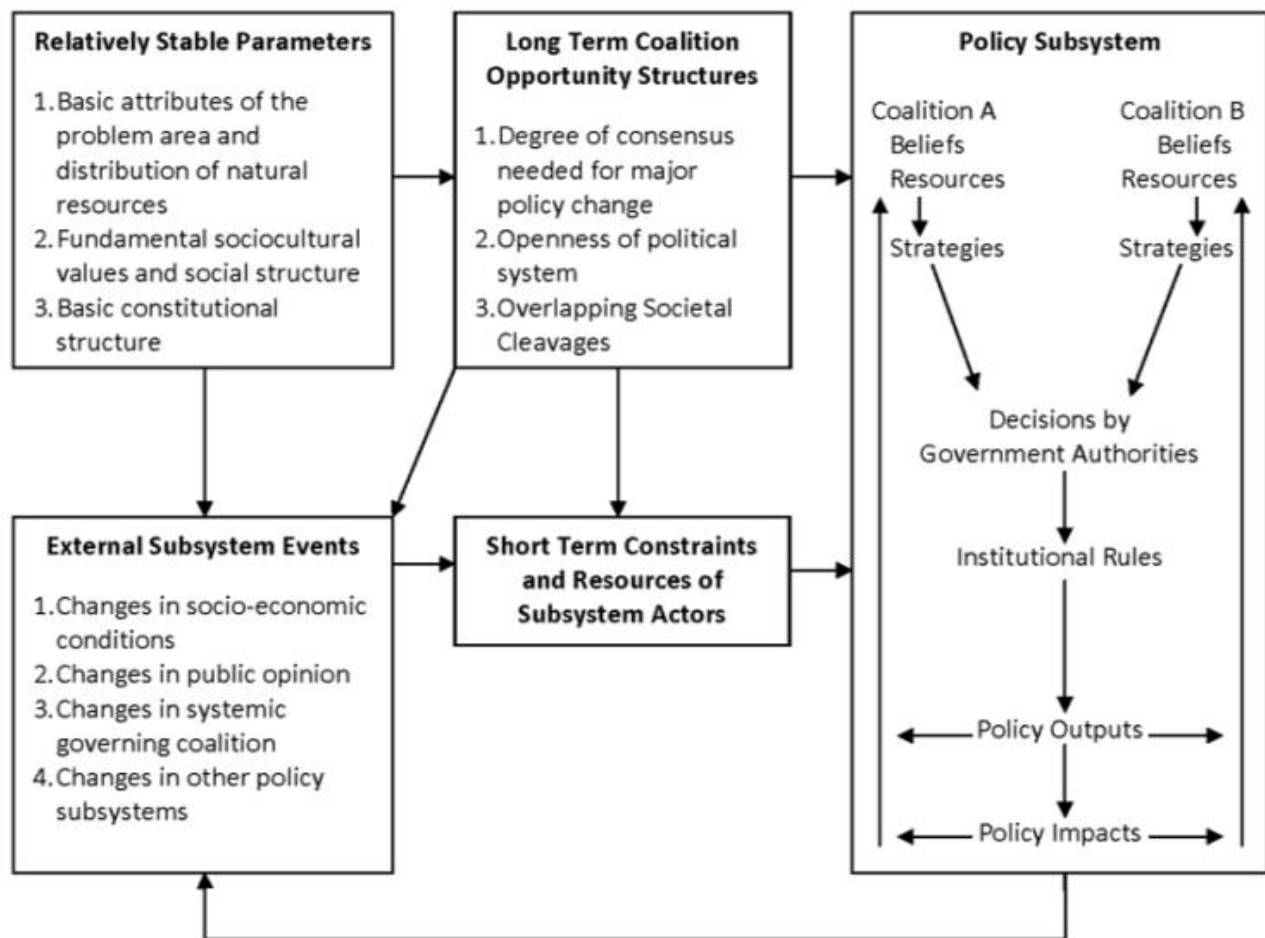
This topic describes the main cognitive elements of the advocacy coalition framework (ACF), designed by Paul A. Sabatier and Henkis-Smith to simplify the complexity of public policy process analysis, with hypotheses about science in public policy, learning, beliefs, and change in public policy (Weible et al., 2009).

The ACF is concerned with exposing the formation of advocacy groups on public policy positions, and how they interact with and influence their change. It is a theoretical framework that describes the phenomenon of public policy from the perspective of the organisation of its actors and their interaction in a given subsystem, and how

they react to changing circumstances (Sabatier, 1988). Sabatier's (1988) justification for choosing to aggregate the actors in the context of the advocacy coalition they are in is to overcome difficulties of institutional models in explaining positions of individuals moving between organisations in the context of a public policy subsystem, in addition to behavioural differences between actors in the same organisation.

The ACF has three core assumptions. The first point is that public policy change must be evaluated over an extended time horizon, greater than ten years (Sabatier, 1988). ACF assumes the existence of motives for forming long-term coalitions due to the existence of underlying values and the logic of reciprocity, that is, the tendency for an individual to resist leaving the coalition in the expectation that other members will act the same way in the future (Zafonte & Sabatier, 2004).

Figure 1: Diagram of the advocacy coalition framework



Source : Weible et al., 2009

The second is about the ACF's preferred universe of analysis. Rather than directing its lens at a specific government organisation, or, as in *Institutional Analysis and Development (IAD)*, at an action situation (Weible et al., 2011), the ACF defines as its unit of analysis the public policy subsystem, characterised as the set of public and private actors related to a public policy problem (Sabatier, 1988). In any case, they are complementary perspectives,

the ACF is complementary through preferential application with the lens on policy subsystems and the IAD through its better ability to explain institutions (Weible et al., 2011).

The public policy subsystem integrates a range of actors that interact in a geographic space on substantive issues, actors that are not limited to government agents, legislators, and organized groups, but also include opinion makers, researchers, journalists, and any others that somehow participate in the subsystem and share the values of a coalition. According to Weible and Sabatier (2005), these *stakeholders* compete in an environment of dispersed power. To achieve their goals they seek allies to form their coalitions. The distinction between the public policy subsystem and the broader political system is one of the main contributions of the ACF (Weible et al., 2009).

Regarding the characteristics of subsystems, the literature concerning the ACF distinguishes between unitary, adversarial, and collaborative. Weible, Pattison, and Sabatier (2010), assume that the variation between one and another is the difference in the degree of coordination patterns. While in unitary and adversarial subsystems coordination occurs among coalition members, in collaborative subsystems there will be more interactions among coalitions. Similarly, the authors envisage the existence of competitive coalitions, identified by a high level of distrust, polarised beliefs and primarily internal patterns of coordination, and cooperative coalitions, in which there is an intermediate level of trust and differences in beliefs, and more interactions among coalitions (Weible et al., 2010).

The ACF envisions relatively stable parameters of the subsystems: a) basic attributes of the problem area; b) the basic distribution of natural resources; c) the fundamental social and cultural values and social structure; d) the basic constitutional structure (Weible et al., 2009).

Finally, the belief system closes the triad of the model. These are values or beliefs of the actors that identify them as members of the same coalition. They arise from people's socialisation, education, and experience, and tend to remain stable (Zafonte & Sabatier, 2004). According to Sabatier (1988), mapping belief systems allows us to assess how actors influence a public policy. In the ACF explanatory framework, the belief system represents the driver of public policy actors' behaviour (Weible et al., 2009).

Sabatier (1988) explains that the belief system is based on the following pillars, a) a model in which actors evaluate the meaning of action and its contribution to certain goals, based on the theory of rational action; b) the assumption that human rationality is limited; c) the understanding that public policy subsystems are composed of political elites rather than the general population, which contributes to a relatively complex and more internalised belief system in the group.

ACF's explanatory framework lists three belief systems, referred to as deep core beliefs, policy core beliefs, and secondary beliefs:

- Deep core beliefs are characterised as the broader and more stable beliefs, such as liberal or conservative beliefs, concerns for future generations (Weible et al., 2009), or the right/left separation (Zafonte & Sabatier, 2004).
- Policy core beliefs are confined to the perimeter of the public policy subsystem and are ideal for coalition building (Weible et al., 2009). They tend to be resistant to change and are likely to adjust better to new experiences and information than deep core beliefs (Weible et al., 2009).
- Finally, secondary beliefs, or instrumental beliefs, are narrower in scope, more empirically based, and susceptible to change (Weible et al., 2009).

Having portrayed the main categories of the advocacy coalitions framework, the conditions of change of the public policy system projected by the theoretical model must be analysed.

Its original version foresaw external factors, such as changes in socioeconomic conditions, and coalitions' efforts to give vent to their core policy beliefs and secondary beliefs, as mechanisms that ignite changes in public policy (Sabatier, 1988). Policy-oriented learning plays an important role in the change process. For Sabatier (1988), learning improves the understanding of relevant variables and causal relationships in a belief system, and can help in identifying responses to issues that challenge that system.

The theoretical framework was updated to add two other hypotheses of change, events internal to the subsystems, sufficient to demonstrate failure, and another formulated after ACF's work on learning among coalitions and the

configuration of forums that allow negotiations and agreements. In the latter hypothesis, ACF identifies conditions that affect the likelihood of change. These are a) *hurting stalemate*, a term adopted to designate situations in which neither side in a dispute can win and there is no possibility of a breakthrough; b) effective leadership; c) consensus-based decision-making rules; d) diverse funding; e) duration of the process and member commitment; e) focus on empirical issues; f) emphasis on trust-building; g) lack of alternative paths (Weible et al., 2009).

Having described the advocacy coalitions framework, the next topic proposes an outline of the main models of beliefs and actors that act in the fiscal policy subsystem.

Advocacy coalitions in the fiscal policy subsystem

In Brazil, the New Fiscal Regime established the spending cap for primary expenditure, adjusted for inflation, of the Executive, Judiciary, and Legislative Branches, the Federal Audit Court, the Federal Public Ministry, and the Federal Public Defender's Office. It was created by Constitutional Amendment No. 95 (2016) to be in force for a period of twenty years, with the purpose of removing the procyclical nature of public spending, that is, its increase in times of economic growth and fiscal adjustments in periods of economic slowdown. The Proposed Amendment to the Constitution No. 241 (2016) was justified by the assertion that the "root of the Federal Government's fiscal problem lies in the accelerated growth of primary public spending," a defining understanding for the characterisation of the policy core belief of one of the groups vying for primacy in the fiscal policy subsystem.

To promote the migration towards a countercyclical fiscal policy, the Proposed Amendment to the Constitution No. 241 (2016), which gave rise to Constitutional Amendment No. 95 (2016), proposes that "a constant real trajectory for spending, coupled with revenue varying with the cycle, will result in higher savings in times of expansion and lower surpluses in times of recession."

The passage of the New Fiscal Regime served as a basis for identifying the main belief systems found in the fiscal policy subsystem and the possible advocacy coalitions operating within it.

The belief systems of the fiscal policy subsystem in Brazil

Because of the centrality of expertise and its direct repercussion on the political debate, one hypothesis that can be assumed is the configuration of belief systems according to the cleavages that largely guide the debate about the effects of fiscal policy on economic activity.

The belief system is a core explanatory category for the advocacy coalition framework because it moves the analysis from interests to coalitions' beliefs (Oliveira, 2011). ACF distinguishes between deep core beliefs, public policy beliefs, and instrumental beliefs. The former translates larger values about the individual, society, and the world (Souza & Secchi, 2014). Policy core beliefs are the beliefs related to the public policy subsystem, and instrumental beliefs are the secondary aspects of public policy.

Our analysis will focus on public policy beliefs, which are more conducive to establishing coalitions and less prone to change (Oliveira, 2011). The divergence of expert conclusions in economics allows us to identify the policy core beliefs of possible coalitions. Cavalcanti and Silva (2010) set out a synthesis of the three main currents on the effects of fiscal policy on economic activity.

The first, known as the neoclassical theory, sees in the expansion of taxation consequences on the supply of product and labour. In the hypothesis of high public debt, the contraction of fiscal spending, especially through the state budget, can generate confidence in private investors (Cavalcanti & Silva, 2010), given the signaling of a behaviour of seeking fiscal balance and ensuring the ability to pay obligations. From the perspective of intertemporal budget limitation of the government, the increase in its spending imposes an increase in taxation in present value similar to the increase in expenditure, leading to reduced consumption and lower real wages (Perotti, 2007).

The second is traditional Keynesian. In it, fiscal policy generates multiplier reaction in the economy, alongside consumption (Cavalcanti & Silva, 2010). Consequently, increased public spending is seen as a positive, important instrument to encourage economic growth. This positioning translates the theoretical current on which public action was based for a long period in the twentieth century, where investment and, more broadly, public spending were transversely seen as natural inducers of increased wealth and collective welfare. In effect, the general paradigm, advocate of financial interventionism, expanded the weight and extent of state intervention in the economy through

broad and growing public policies, the adoption of the so-called principle of the optimum aimed at achieving the social optimum and high levels of welfare for all (Catarino, 2022).

A third line holds that, under certain conditions, fiscal policy can be neutral with respect to the level of economic activity. This is called Ricardian equivalence, according to which a tax cut that generates a given deficit will lead to an increase in taxation in the future, with the same present value as the original cut. In this hypothesis, fiscal policy interferes in the value added only if the demand for consumption changes the present value of these taxes, which, according to the hypothesis, does not occur with the replacement of a deficit by taxation. A possible fall in government savings generates an increase in private savings, and vice versa in the case of increased taxation. Therefore, the national savings would not change in any of the scenarios, without necessarily generating first-level changes in the economy, such as interest rate increase and current account deficit (Barro, 1989).

The presentation of three views on how fiscal policy interferes with economic activity is relevant to expose the economic debate on fiscal policy. However, from the point of view of gauging how actors conform their beliefs and mobilise their resources to interfere in the conduct of Brazilian fiscal policy, it is sufficient to distinguish between two large groups. We do not include as a defining criterion of a coalition the theoretical approach on the neutrality of fiscal policy, since we cannot identify in the visible coalitions the public defense of the Ricardian equivalence hypothesis.

The first set of actors has as a defining feature of its policy core belief the execution of fiscal policy in order to limit the expansion of public spending (especially current spending) to ensure primary surpluses that sustain the government's macroeconomic policy and improve the public debt/GDP ratio, a measure that can improve domestic savings with a reduction in the tax burden (Ministério da Economia, 2019). Gadelha (2011) explains, when discussing the main explanatory variables of the relationship between fiscal policy and economic growth, that this strand adopts a non-Keynesian approach, based on empirical analysis whose conclusions suggest that fiscal contraction can generate greater confidence in economic agents, and expand private investment and consumption.

In the context of this belief system, the establishment of a public spending limit tied to the inflation rate, in the form set by the current wording of the Brazilian Constitution, can be categorised as an instrumental belief.

The spending cap is framed as an instrumental belief because it is another mechanism to contain public spending (this is the belief engendered in the concept of policy core belief), which can be replaced or coexist with others, without this representing a subversion of the coalition's public policy beliefs. In Brazil, the institution of the spending cap did not represent the repeal of the system of fiscal targets set by Complementary Law No. 101/2000 (2000), known as the "Fiscal Responsibility Law". They are, therefore, instruments whose institution in a legal system depends on a legislator's option, both, however, aimed at the same public policy objective. In the same context is inserted the provision for setting limits on public debt in relation to the Gross Domestic Product (GDP) inserted in the Treaty on the Functioning of the European Union (2013).

The belief system supported by Keynesian theory, on the other hand, highlights the positive effect of public spending on economic activity. In this logic, "public spending is considered an exogenous instrument of economic policy, causing changes in the aggregate level of real GDP in the short run and being used to correct cyclical fluctuations in the economy" (Gadelha, 2011). This belief system that points to the potentially positive function of public spending has provided arguments for criticism of the Brazilian New Fiscal Regime, considered inappropriate for a recessive economic framework (De Bolle, 2020), attentive to the Fundamental Rights funding regime (Pinto & Ximenes, 2018), contrary to the course of reducing inequality and limiting the State's response in case of worsening of the economic crisis (Paiva et al., 2016), besides leading to an increase in the share of debt and interest in the federal budget, because they are not included in the spending cap (Tavares & Ramos, 2018).

Another hypothesis for the application of the ACF in the analysis of the fiscal policy subsystem is that the Keynesian current dialogues can strongly align with coalitions of other public policy subsystems in which the expansion of public spending is a core policy belief. The behaviour of coalitions in the education and health policy subsystems in the face of the then Proposed Constitutional Amendment of the New Fiscal Regime indicates the confirmation of the hypothesis, as we shall see.

Once the major belief systems have been highlighted, it is possible to unveil the actors that sustain them in coalitions.

Key political actors of the fiscal policy subsystem in Brazil

The success of a country's macroeconomic fundamentals and the proper functioning of the microeconomy depend in part on fiscal policy and its consequences as the formation of prices, contracts, and the behaviour of economic agents. Because of its importance and breadth it is predictable and expected that a wide range of players will seek to influence the direction of the fiscal policy subsystem. Likewise, an essential element to identify the actors in the subsystem is to understand the relationship of the fiscal policy subsystem with the other public policy subsystems.

The actors that sustain the belief systems are listed. Since this is eminently documentary research, there was not the scope intended by the ACF, which transcends the limitation of the actors to the so-called iron triangle, that is, bureaucrats, parliamentarians, and interest groups (Adams, 1981). The ACF gives importance to public opinion and experts, groups that certainly have a major influence on fiscal policy, but which have the drawback of being more dispersed, making it more difficult to collect them. Consequently, their exact categorisation requires studies that go beyond the text approach.

The research identified the actors according to the public positions of organisations on Brazil's New Fiscal Regime, and the position of political parties in the vote on the Constitutional Amendment Proposal (PEC) 241/16. In summary, the initial effort to study coalitions presents actors related to two vertices of the iron triangle: interest groups and parliamentary groups. In addition, two press vehicles had their opinions identified and were added to the result.

Table 1: Entities that have expressed a position on PEC n° 241/2016, selected by the documentary analysis

Entity	Position	Sector
Federation of Business Associations of Santa Catarina (FACISC)	IN FAVOUR	Enterprise
Councils of the Business Federations of SC	IN FAVOUR	Enterprise
Confederation of Commercial and Business Associations of Brazil (CACB)	IN FAVOUR	Enterprise
CNI, CNA, CNC, CNT, CNCOOP, CNCS, CNF, CNS, CNseg	IN FAVOUR	Enterprise
National Association of Labor Magistrates	AGAINST	Public service class entity
National Council of Health Secretaries and National Council of Municipal Health Secretaries	AGAINST	Social Movements
National Health Council	AGAINST	Public Policy Council
Fecomércio/SP	IN FAVOUR	Enterprise
Febraban	IN FAVOUR	Bank
Ipea	IN FAVOUR	Government
CUT	AGAINST	Workers
Union Force	AGAINST	Workers

Central Bank	IN FAVOUR	State
FIESP	IN FAVOUR	Entrepreneurs
National Treasury Secretariat	IN FAVOUR	State
Public Ministry of Paraná	AGAINST	Justice System
Health Care Advocacy Associations	AGAINST	Entities in the area of social policies
National Association of Federal Public Defenders	AGAINST	Public Prosecutor's Office
Época Magazine	IN FAVOUR	Press
Gazeta do Povo	IN FAVOUR	Press
Associative Front of the Judiciary and Public Ministry, Fiscal Servants Entities	AGAINST	Public service class entities
National Campaign for the Right to Education	AGAINST	Social Movement

Source: Authors' research data

Table 1 confirms the common perception on the subject. The limitation of primary expenditure is advocated by business and financial sector actors, as they consider spending expansion to generate budget deficits and public debt in line with what has been the dominant doctrine supported by greater financial interventionism (Catarino, 2022). This perception is in line with the more general positioning of market actors, who prefer more freedom of initiative, higher levels of economic regulation, lower taxes, less public intervention and greater fiscal consolidation.

It is at odds with the perspective of public sector actors and social groups and individual actors, who are more desirous of increased levels of public intervention through policies guaranteeing better social rights supported by a more spendthrift fiscal policy (; OECD, 2010; OECD, 2011; Sutherland, Holler & Merola, 2012.). It is also confirmed that actors in other public policy systems join forces with the Keynesian or expansionary public spending position.

Having outlined the actors that fall into the category of pressure and opinion groups, the investigation continues in the universe of the representation of political forces in the Brazilian House of Representatives.

Table 2 shows the orientation of the parties or bloc of parties for the vote on PEC 241 in the first round, which was approved by 366 votes, with 111 votes against and 2 abstentions, a total quorum of 480 parliamentarians. Although there are votes against the orientation in some parties, the position signals a majority line in each party or bloc:

Table 2 : Party votes in the vote of PEC No. 241/16 by the House of Representatives

PARTY/BLOCK	ORIENTATION
PP-PTB-PSC	YES
PMDB-PEN	YES
PT	NO
PSDB	YES

PR	YES
PSD	YES
PSB	YES
DEM	YES
PRB	YES
PDT	NO
PTN-PTdoB-PSL	YES
SOLIDARIEDADE	YES
PCdoB	NO
PPS	YES
PHS	YES
PROS	YES
PV	YES
PSOL	NO
Repr. REDE	NO
Repr. PMB	NO
Repr. PRP	YES
Minority	NO
GOVERNMENT	YES

Source: House of Representatives [CÂMARA] (2016)

For the purpose of analysis, we chose to use data from the vote in the first round of PEC 241/2016 in the House of Representatives. Also, for a choice of universe cut, data related to the vote in the Federal Senate are not exposed, which, incidentally, followed the logic of a large majority in favour of the New Fiscal Regime, approved by 61 to 14 (Senate, 2016).

Although separated by two decades, the votes on the Supplementary Law Project n. 18/99, transformed into the Supplementary Law n. 101/2000 (Fiscal Responsibility Law), and the PEC 241/16 (New Fiscal Regime), obtained similar numbers. The LRF was approved in the House of Representatives by 385 votes in favour and 86 against (Afonso, 2010). Therefore, there is an indication that the actors' belief system advocating a contractionary fiscal policy finds stable support over time in terms of representation in Parliament.

Spending caps and the Covid-19 pandemic

The New Brazilian Fiscal Regime will be in force for 20 fiscal years, beginning in 2017. The difficulties in maintaining the spending cap regime for such a long period are evident, even though it is possible to review it after the tenth year of its effectiveness.

The global crisis caused by the pandemic has shaken the Brazilian economy and tax revenues. GDP decreased 3.9% in the third quarter of 2020 in relation to the same period of the previous year (IBGE, 2021). One possible question is whether the current scenario has changed the belief systems of the actors, especially the group that supports the limitation of primary expenditure through the spending cap mechanism.

To understand the movement of alteration, or confirmation, of the dominant coalition's belief system, two sources were used. First, legislative propositions that relate to public spending and the spending cap. Second, news reports published by two selected media companies (Globo and Folha de São Paulo). It was considered that the expansion of the research to other media spaces would not bring additional gains, given that those selected reproduce the

statements of the main actors in the political environment, material that, at the current stage of the debate about the spending cap, is sufficient to assess the occurrence of modification of the belief system.

As far as legislative proposals are concerned, the main rule approved to account for spending during the first year of the pandemic denotes the purpose of treating the period as an exception, whose end would allow the return of the spending cap.

Constitutional Amendment No. 106 (2020) established an extraordinary fiscal, financial, and contracting regime for the pandemic, with force limited to the duration of the state of public calamity (art. 1). In its article 3, it foresees that temporary expenses to face the pandemic and its consequences are not subject to the legal limits for the creation, expansion or improvement of governmental action, as well as for the concession or expansion of incentives or tax benefits that result in revenue waiver.

Table 3: Position of public authorities on the spending cap

Public Agent	Position	Position	Date
Ricardo Barros	Government Leader of the House of Representatives	Favourable	01/09/2020
Paulo Guedes	Minister of Economy	Favourable	20/08/2020
Paulo Guedes	Minister of Economy	Favourable	22/12/2020
Rodrigo Maia	President of the Chamber of Deputies	Favourable	18/08/2020
Jair Bolsonaro	President of the Republic	Favourable	12/08/2020
Hamilton Mourão	Vice-President of the Republic	Favourable	14/08/2020
Bruno Funchal	National Treasury Secretary	Favourable	06/08/2020
Fabio Kanczuk	Director of Economic Policy at the Central Bank	Favourable	04/09/2020
Márcio Bittar	Senator, Reporter of the Emergency PEC	Favourable	08/12/2020
Waldery Rodrigues	Special Secretary for Finance	Favourable	24/06/2020
Roberto Campos Neto	President of the Central Bank	Favourable	02/09/2020

Source: Authors' research

The so-called "War Budget" Amendment is expressed in several passages regarding the temporal limitation of its authorisations, so that here, too, there was a clear intention to return to the permanent fiscal regime in 2021. The same conclusion is reached when scrutinising Complementary Law No. 173 (2020), which established the Federative Program for Confronting the Coronavirus and fixed the aid to the States and Municipalities. Its provisions have a fixed term and foresee obligations to contain personnel expenses (art. 8).

The two main regulatory instruments that governed public spending during the pandemic in 2020 contained no evidence of a change in the belief system of the contractionist coalition. This finding can be strengthened by looking at statements from strategic public officials.

On the internet-based documentary analysis we selected statements from Brazilian public authorities about the spending cap in 2020, all of which favour its maintenance, as shown in Table 3.

We find that this stability in beliefs supporting further limitation of Brazil's spending is in line with the policy adopted by the European Commission and followed by all its current 27 member states, at least since the beginning of the third phase of the Economic and Monetary Union (EMU) until today. Indeed, the EU's belief system in this regard has not only proved very stable, even during the financial system crisis of 2007-2011, but was strengthened after it. Indeed, the EMU is based on principles set out in the 2009 Stability and Growth Pact (SGP), revised in 2005 and in 2011, which advocate the long-term sustainability of EU Member States' public finances and a vigorous adherence to the established public deficit and debt limits.

It is also in line with the exceptional measures that have been taken in the EU with the aim of sustaining the European economy in a crisis environment and supporting a sustainable economic recovery, namely by recently

adopting the Recovery and Resilience Mechanism (RRM). In fact, the European Commission, after hearing the European Council and the Council of the European Union, activated in March 2020 the derogation clause of the SGP¹, allowing a coordinated temporary deviation of Member States from the strict limits of the budget deficit. This is a temporary deviation from what should be the normal functioning of the budgetary rules in this specific situation of severe economic recession, in which the preventive arm and the Excessive Deficit Procedure of fiscal policy, provided for in article 126 of the Treaty on the Functioning of the European Union (TFEU), will not be triggered if Member States do not respect the deficit ceiling, because the European Commission warns that the derogation of this clause does not suspend the procedures under the Stability and Growth Pact. (European Commission, COM (2020) 123 final).

In the same direction leans the OECD in advocating exceptional measures to deal with the pandemic crisis and a rapid return to orthodoxy in member states' fiscal policy (Guillemette & D. Turner, 2021).

Therefore, there was a tendency in 2020 to maintain the contractionary policy to ensure the maintenance of the spending cap mechanism in Brazil, in line with the policy adopted in the European Union, which indicates the permanence of the rigidity of the policy core beliefs and instrumental beliefs of the groups that share the beliefs that led to the approval of the Fiscal Responsibility Law and the Constitutional Amendment of the spending cap. This trend confirms the conclusion that the approval of PEC No. 186 (2019) by the Federal Senate, called the "Emergency PEC," which, among other things, provided for a mechanism to control the federal government's current expenses and limit the granting of tax exemptions, was intended to contain the escalating public debt. The text approved by the Senate also intended to set a limit to the Union's expenditure with the extension of the emergency aid in 2021, in the amount of R\$ 44,000,000,000.00 (forty-four billion reais).

Thus, the pandemic crisis may be glimpsed as an opportunity for the coalition to enable constitutional changes that modify the structure of primary expenditure of the federal budget and/or set limits on its growth, as indicated by the approval of the so-called Emergency PEC, embodied in Constitutional Amendment No. 109/2021. This is an evolutionary direction that is in line with the change seen in Europe, more specifically in the European Union, as evidenced above, where the general objective is the long-term structural sustainability of fiscal policy, either through the limits imposed by the SGP – Stability and Growth Pact and its additional packages of measures, or through the Treaty on Stability, Cooperation and Governance (TSCG) in the Economic and Monetary Union, 2013.

There is an indication that the political majority in Brazil will sustain, at least for the time being, the spending cap rule, although difficulties in its operationalisation and even short-term governmental demands may be leading to adjustments in the rule, opening of exceptions, or intensification of the dispute as to the allocation of resources in the federal budget for primary expenditures.

The hypothesis that the issue of the spending cap puts the actors associated with the contractionist bias in a situation of cognitive dissonance is not discarded. This concept composes the theoretical framework of the ACF to designate the incongruence between a factual situation and the actors' belief systems, which puts them in a state of arousal and leads to actions aimed at reducing the dissonance between belief and reality (Moyson, 2017). The conflict between demands for increased public spending and the limits imposed by the spending cap may come to characterise a situation with these characteristics. Two Constitutional Amendments approved in December 2021 indicate the possibility of the occurrence of this bias of incompatibility between contractionist message and expansionist demand, even if for a period limited to the legislature that ends in 2022. Constitutional Amendments No. 113 (2021) and No. 114 (2021) made exceptions to allow the expansion of expenses for the fight against the Coronavirus and social programs in the fiscal years 2021 and 2022, even modifying the correction criteria of the ceiling itself, for the purpose of opening a margin for expenses.

Having described the overview of the impact of the pandemic on the belief system of the contractionist coalition, it is possible to collate it with assumptions of the ACF model.

¹ This clause, which facilitates the coordination of budgetary policies in periods of severe economic downturn, is provided for in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No. 1466/97 and in Articles 3(5) and 5(2) of Regulation (EC) No. 1467/97 as follows: "*in periods of severe economic downturn affecting the euro area or the Union as a whole, Member States may be allowed to temporarily depart from the adjustment path towards the medium-term budgetary objective (...), provided that this does not endanger fiscal sustainability in the medium term*".

The fiscal policy subsystem has a distinctly adversarial predicament, characterised by competition, polarised beliefs, and low coordination among coalitions, alignment of authorities with one or the other, "shopping grounds" where coalitions seek to prevail over others, and public policies with clear identification of winners and losers and little compromise among coalitions (Sabatier & Weible, 2009). The clash between contractionary and expansionary coalitions and the existence of few points of agreement signals a subsystem in which there are clear winners and losers, polarised beliefs, and government agents committed to a specific coalition. The last conclusion is supported by the results offered in Table 3, which denotes a clear alignment with the contractionary position.

In an adversarial system, coalitions seek to ground themselves in the government or interest groups with sufficient power and resources to confront opponents, and conflicts are established because coalitions prefer coercive and prescriptive public policies (Weible et al., 2010). These nuances can be seen in the fiscal policy subsystem: the contractionary coalition, a clear majority when considering the parliamentary majority, predominantly proposes changes in fiscal policy embedded in preceptive rules that will greatly diminish the irradiation in the budget field of the ideas coming from the expansionary coalition's belief system. Greater examples are the rules for returning to the spending limits and for limiting the concession or maintenance of tax exemptions.

Regarding policy change, the ACF assumes that policy-oriented learning can alter instrumental aspects of the belief system, and changes in the core belief system would presuppose external events that modify coalition power, such as a new government or economic conditions (Sabatier, 1988). Subsequently, the theoretical model went on to list two other possibilities for change, events internal to the subsystem that would demonstrate malfunctions, and agreements between coalitions (Weible et al., 2009).

The pandemic is an external event that did not substantially change the belief system of the contractionist coalition in Brazil over the time horizon analysed. The same is true in the European Union where the suspension of contractionary measures is extraordinary, limited in time and does not suspend the procedures under the Stability and Growth Pact. For the ACF, the belief system determines the direction in which the coalition refers government programs, while its ability to do so will depend on its resources, such as authority, number of supporters, financial resources, and capacity (Sabatier, 1988). In the fiscal policy subsystem the contractionary value system continues to set the direction of programs according to the logic underlying Constitutional Amendment No. 95 (2016), although with indications of the occurrence of distributional conflicts characterising a situation of cognitive dissonance.

Finally, the hypothesis put forward by Sabatier (1988) that it is unlikely that a public policy will be revised while the coalition remains in power is confirmed in the Brazilian fiscal policy subsystem. On the contrary, even if the conditions for a second hypothesis of change addressed by the author, the occurrence of relevant disturbances in the subsystem, were present, this hypothesis was not confirmed. The pandemic, despite its severe consequences, did not bring about fundamental changes in the coalition that decides the course of fiscal policy in Brazil.

Conclusion

Unravelling the belief systems of the tax policy coalitions and their priority actors can help prescribe improvements during the processes inherent to tax policy. Do the existing institutional mechanisms protect the government from undue influence from one coalition or another? Do they allow the actors of the coalitions, the degree of their influence, and the underlying meaning of the decisions made to be externalised? In an adversarial subsystem such as fiscal policy, are there dialogical procedures that minimise the effects of the devil shift, the mutual distrust between coalitions?

In the period under review, belief systems have not suffered major shocks. In fact, the positions of those who advocate for higher public spending to favour public investment and economic performance, and those who advocate for a robust spending cap to contain government spending at a time when the pressure to spend has already increased, without there having been an improvement in economic activity and tax revenues obtained by this means, seem to remain very polarised and opposed. In Brazil, the contractionary spending coalition remains robust in its convictions, unscathed by the impact the crisis is having on economic activity.

This perception is in line with the positioning of economic actors, who prefer more freedom of initiative, lower taxes, less public intervention and greater fiscal consolidation in the long term.

But it also fits the perspective of those who advocate increased levels of public intervention and policies that guarantee more social rights supported by a more spendthrift fiscal policy. Nonetheless, it will generate larger budget deficits and more public debt (OECD, 2011, 2010; Sutherland, Holler & Merola, 2012).

However, we note that, since August 2018, the Independent Fiscal Institution, linked to the Federal Senate, warned that the spending cap would be complied with until 2020, with the possibility of non-compliance in 2021 (Independent Fiscal Institution [IFI], 2020), which did not occur due to several factors, one of them being the exclusion of certain expenses from the cap. The "War Budget" allowed for an increase in public spending in 2020. Until August 2020 extraordinary credits were opened in the amount of R\$511.3 billion. Part of this amount (R\$245.5 billion) was supported by the issuance of public debt (IFI, 2020). In 2021, the value of the emergency aid was excluded by Constitutional Amendment No. 109 (2021) from the spending cap, which guaranteed a margin for compliance with the rule. However, the fiscal, political, and economic situation in Brazil caused the coalition to present proposals to address the public problem posed, proposing adjustments in its instrumental belief, through sequential adjustments in the spending cap rule.

Our recommendation for future research includes performing the same type of study using inferential statistical analysis and applying causal or covariation testing between the variables, namely external shocks, as independent variable, and policy core beliefs on expenditure cap, as dependent variable.

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