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Public Budgeting and Debt

Teresa Brandão de Magalhães

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CONTENTS

INTRODUCTION

When the Public Sector spends more money than it has, the government has two alternatives to finance itself. One of them is printing more currency and issuing more money. The other alternative is that the government borrows more money from the financial market, issuing public bonds. In the case of Brazil and United States, managing the federal debt makes the Federal government the largest participant in capital market.

As Abel and Bernanke (2001) point out, “there is an important distinction between the government budget deficit and the government debt (also called national debt or public debt). The government budget deficit (a flow variable) is the difference between expenditures and tax revenues in any fiscal year. The government debt (public debt), a stock variable, is the total value of government bonds at any particular time. Because the excess of government expenditures over revenues equals the amount of new borrowing that the government must do – that is, the amount of new government debt that it must issue – any year’s deficit equals the change in debt in that year”. While deficit (or surplus) is an annual number, debt is a cumulative number.

The budget is a key instrument for government decisions, since it determines how much to spend, what to spend and how to finance it. In the present time, the budget often appears to be a limiting process, imprisoned in old commitments that narrow the options available to the government. The aim of this paper is to give a historical perspective of the Brazilian and American budgets, an overview of their processes and major laws and show how the payment of the public domestic debt, in each country, is handled differently.

In Brazil, the federal annual budget is the main tool used for refinancing, whereas in the United States authoritative legislation is the tool for refinancing public domestic debt.

BRAZIL

BRAZILIAN BUDGET

In Brazil, a more regulated budget process dates from October 28, 1936, with the Law N° 284 that organized what was then called the Administration Department of the Public Service – DASP, subordinated to the President.

Despite the abundance of laws and regulations, the Brazilian administrative activities have unfolded in practice. A method inspired by the modern principles of administration did not exist, nor did the lines of any system rationally structured and organically operating. Being at the mercy of personal conveniences or groups, the public administration adjusted to the more convenient international experiences, rather than to the peculiarities of the country.

The technological evolution and world-wide economic growth forced the beginning of the expansion of the administrative apparatus, the creation of new agencies and the conscription of public servants for technical functions. As a result, with the objective of organizing the public service, the government tried to standardize all of their attributes.

The past budgets were mere pictures of revenues and expenditures, but later became the base of planning for future activities, such as:

- Assisting the executive branch in its organization;
- Giving the Congress the basis in which to process the forecast of revenues and the settlement of expenditures;
- Providing to the administration the chance to put in action a more effective and real control;
- Giving the basis for the analysis of accounts;
- Becoming a basic instrument of the administration and accountability;
- Centering the budgetary activities in a specialized agency.

MAJOR LAWS

In the process of budgetary elaboration, the legislation is classified in general norms and specific norms:

GENERAL NORMS

CONSTITUTION – The Brazilian Constitution settles, in its Article 165, that the Executive Branch shall establish the Multiyear Plan (PPA), budgetary directives (Budget Guidelines Law – LDO) and the annual budgets (LOA's). Also, the bills regarding PPA, LDO and LOA shall be examined by the two Houses of the National Congress, in accordance with their common regulations.

LAW NRO. 4.320 – Establishes for the first time the principles of the budgetary transparency, laying down general rules for the preparation and control of the budgets and general sheets of the Union, the States, the Municipalities and the Federal District, with the goal of the homogeneity of concepts, methodologies and accounts, basic to facilitating the consolidation of the data.

It defines the fiscal year and states that the revenues and the expenditures must be unfolded according to its economic category, having to be discriminated and classified in order to provide transparency for the fiscal-economic policies of the government.

FISCAL RESPONSIBILITY LAW – LRF – The Fiscal Responsibility Law represents one of the most important changes in the Brazilian fiscal regime. It sets a general framework for budgetary planning, execution and reporting which shall be observed by the three branches (Executive, Legislative and Judiciary), in the three spheres of the government (Federal, State and Municipal). It is a Supplementary Law, requiring a qualified absolute majority (50% + 1) of Congress to be modified.

This Law establishes limits in relation to personnel expenses, public debt and also determines scores, in order to control revenues and expenditures. For example, new expenditures – continuing expenses for more than two years – can't be created without indicating its source of revenue or reducing another expense.

Regarding the public debt, it establishes that the Senate will put limits for the Public Debt, observing the relationship between the Debt and the capacity to pay it. If the indebtedness limit is exceeded, appropriate measures must be taken to correct it within 12 months. If, after that, the excess remains, it will be impossible to contract new credit operations.

<u>SPECIFIC NORMS</u>

MULTIYEAR PLAN – PPA – This law establishes directives, objectives and goals for the Public Administration, for capital expenditures and others deriving from them and for the expenditures of continued duration programs. It is reestablished every four years, being elaborated in the first year of the presidential term, **(it must be sent by the President of the Republic to the National Congress by August, 31)** closing in the first year of the following mandate.

BUDGET GUIDELINES LAW – LDO – This law contains the goals and priorities of the Federal Public Administration, including the capital expenditures for the following fiscal year, guiding the elaboration of the Annual Budgetary Law – LOA, preparing alterations in tax legislation and establishing the investment policies for the official development financing agencies. **It must be sent by the President to the National Congress by April 15 of each year.**

The Budget Guidelines Law – LDO, defines a legal target for the primary result consistent with the debt limits to further integrate budget elaboration on a medium-term perspective, and the Fiscal Responsibility Law also introduced the report of fiscal targets, one of the transparency requirements, attached to the LDO. It also specifies the macroeconomic assumptions for the next year and the two consecutive fiscal years, sets the legal target for the primary surplus for the next year and indicates the primary surplus objectives for the two consecutive years.

ANNUAL BUDGETARY LAW – LOA – Law that contains the discrimination of the public revenues and expenditures, as evidence of the financial and economic policy and the government's program works.

On the basis of the sanctioned LDO, the Secretariat of Federal Budget elaborates the Appropriation Bill for the following year, in accordance with the Ministries and agencies of the Legislative and Judiciary branches. By constitutional determination, **the Government must send the LOA to the Congress by August 31 of each year**. A message from the President accompanies the LOA, in which a diagnosis on the economic situation of the country and its perspectives is made.

The Annual Budgetary Law shall include:

- The fiscal budget regarding the branches of the Union, their funds, bodies and entities of the direct and indirect administration, including foundations instituted and maintained by the Government;
- The investment budget of companies in which the Union directly or indirectly holds the majority of the voting capital;
- The social welfare budget, comprising all direct and indirect administration entitles or bodies connected with social security, as well as funds and foundations instituted and maintained by the Government.

In the Congress, a permanent joint committee of members of the House of Representatives and Senators examine and issue their recommendations about the bills and accounts presented, and exercise budgetary monitoring and supervision. Amendments shall be submitted to that committee, which will then be examined in accordance with the regulations by the Floor of the two Houses of the National Congress.

These amendments may only be approved if they are compatible with the PPA and LDO, and if they specify the necessary funds, allowing only those resulting from the annulment of expenses, and excluding those which apply to allocations for personnel and their charges, debt servicing and constitutional tax transfers to the States, the Municipalities and the Federal District, or if they are related to the correction of errors, omissions, or to the provisions of the text of the Law.

The Constitution determines that **the Budget must be voted and approved by the end of each legislative period (December 31)**. After approval, the law is signed by the President.

BRAZILIAN PUBLIC DEBT

Until the 1950's, the Government used the mechanisms of currency emission and indebtedness to the Banco do Brasil, in order to finance public debt. During the Kubtischek administration (1955-1961), "*the external debt was reduced in absolute value and the commercial balance presented a surplus in practically the whole period...the average inflation was 22.5% annually and in 1961 reached 35% annually*"(Feu, Aumara and Carlos Alvim, 2001).

When the Military Regime started in 1964, there was practically no internal debt, but this must be seen more as a reflection of a practical impossibility of indebtedness concerning the market at the time, than as a sign of financial equilibrium. After 1964, an indebtedness cycle began through mechanisms of monetary correction, the issuing of internal bonds and the contracting of external loans, thus increasing the extent of the Public Debt. As Bevilacqua and Garcia (1999) state, the public debt market was reborn together with several financial reforms and the military government stabilization plan, the PAEG. Therefore, the denominator of the Public Debt/GDP was maintained below 8% until 1979. "*Then the first explosive cycle of the debt occurred due to the superposing of the oil-shock(1979) and "interests" shock of 1982"* (Feu, Aumara and Carlos Alvim, 2001).

At this point, a new finance policy was adopted, creating a balance of goods and services through the devaluation of the national currency. This caused those who had debts in foreign currency to be in great trouble. The result was a kind of "debt socialization", with the government taking part in the debt of governmental companies and private companies; the former capitalized their debts or received contributions from the government, while the latter obtained help through the exchange correction. There was also a concession of exportation subsidies, contributing to the debt growth, which reached 30% of the GDP in 1986. By that time, the federal bonds and savings accounts were practically the sole way to protect against inflation.

After 1986, 30% was the key denominator of the Public Debt/GDP: each time it was reached, a stabilization plan was created (Cruzado, Bresser, Summer, Collor 1 and 2). By 1991, the process of substituting the external debt by the internal debt began. "*The net external debt was reduced by the accumulation of reserves. These reserves where applied on public bonds, generating remuneration much higher than that obtained from reserves in foreign banks when they were converted to dollars. As the government did not* *generate sufficient surpluses to pay the interests, the internal debt increase was much higher than the external debt reduction"* (Feu, Aumara and Carlos Alvim, 2001). In 1994, the internal debt/GDP ratio was 14% of the GDP. After the Real Plan, this proportion began to grow, mostly due to policies focused on attracting capital and accumulating reserves, which resulted in the increased contraction of the monetary basis (as a counterpart of accumulation of international reserves), and raised the interest rate in order to attract these capitals. This caused the occurrence of successive deficits (the raising of interest rates in various moments, which then resulted in the growth of financial expenses of the public sector) and the devaluation of the exchange rate in 1999.

CONCEPT OF PUBLIC SECTOR BORROWING REQUIREMENTS

The concept of the fiscal result of the government, also known as "Necessidades de Financiamento do Setor Público – NFSP" or Public Sector Borrowing Requirements - PSBR – was introduced in Brazil through the influence of the criteria of evaluation used by the International Monetary Fund – IMF. It evaluates the fiscal performance of the Public Sector in one determined period of time, generally inside of a fiscal year. This instrument selects the sum of resources that the non-financial public sector[1] needs to take together to the internal/external sector, beyond its tax revenues, to break even with its expenditures.

With regard to the financing of the government, is used to state different necessities of financing in the three levels of government, including state-owned companies. Otherwise, since the publication of the Fiscal Responsibility Law(Complementary Law

[1] The concept of Non financial public sector is defined as direct and indirect public administration agencies of Federal, State and Municipal levels; Federal Social Security Administration Agency; Federal State Companies and Public Funds funded by fiscal contributions (e.g. FAT).

Nro. 101/2002), the Budget Guidelines Law – LDO of each level will have to indicate the intended fiscal results of the fiscal year for which the law is referred, as well as for the two subsequent years.

At the federal level, the FNSP's are refined separately for the Fiscal and Social Security Budgets and for the Investment Budget. The result of the Fiscal and Social Security Budgets receive the name "Necessities of Financing of the Central Government", while the result of the Investment Budget receives the name "Necessity of Financing of the State-Owned Companies".

METHODOLOGY

The General Coordination of Public Debt Control at the National Treasury elaborates the budget of the Budget Unities Financial Incumbencies of the Union – EFU – 71.101, Official Credit Operations – OOC - 74.101, Refinancing of the Public Debt-DPMF-75.101. Each Budgetary Unit gives a detailed presentation of the expenditures inside its range, through the establishment of lines of direction, priorities and the distribution of values.

As for refinancing, the increasing concern with the programming of expenses generated the necessity to use new methods of budgetary forecast, with an emphasis on the objective and not only on the type of expenditure.

The substitution of the corresponding parcel of principal of due bonds, for new bonds plus monetary update, defines the concept of refinancing. The amortization concept starts to mean only the gradual reduction of a debt. The relative sum of resources of refinancing is the part of the appropriation bill detached from the effective payments of the public debt.

Refinancing in the budget portrays the debt parcel contracted with the intention to refinance previous commitments. The expenditures with the Refinancing of the Public Debt will be enclosed in the law, separately of the other expenditures with the service of the debt, consisting in the refinancing of the Public Debt. Until 1996, the totality of the commitments with internal and external debts was registered in the Budgetary Unit Financial Incumbencies of Union - EFU. In 1997, a new treatment was given to the rollover of the public debt (also TDAs – Agricultural Debt Securities), whose endowments, in its bigger part, had started to consist of a new unit, called Refinancing of the Public Debt- Resources under the supervision of the Treasury Department. It continued consisting of the EFU, however, not only the liquid amortization of the federal debt, but also the refinancing of the contractual debt and the incident interests incumbencies on all the debt. This deficiency was solved by magnifying the scope of the Revenue 143 (Securities under the responsibility of the National Treasury – Refinancing of Federal Debt), to extend to the contractual debt, the same treatment given to Federal Domestic Public Debt. The obligation paid with emission of securities (bonds) was dealt with as refinancing. Since then, Revenue 143 has been used in diverse Budgetary Units to indicate the rollover of the principal of contractual debts, while the rollover of public debt has been reserved to Budget Unit UO 75101.

The Budgeting under the responsibility of the General Coordination of Public Debt Control is made in two steps, having two distinct budget processes. The first happens in May with the agencies, when the budgeting of external debt (contractual and bonds) is planned, along with necessities for the previous issuance of federal debt securities, for National Treasury's Special Responsibilities (Dívida Securitizada), Agricultural Debt and Agricultural Debt Security – TDA. The second phase occurs in August when all the forecasts about outlays (expenses) have been consolidated, and also the anticipation of the revenues for the next year. The profile of mismatches between financial revenues and expenses of the central government is performed.

The first thing considered in this second step of the budgeting, is the public debt requirement for maturities due in the respective year under a base-case scenario. This is built with the projection of economic indicators at which debt is linked, like interest rates (SELIC, TJLP and Libor), exchange rates, price indexes (IGP-M, IGP-Di and IPCA) and TR. Assumptions concerning the economic environment are made, disregarding large swings in the economy or the occurrence of any shocks. In the event that the assumptions adopted fail to materialize, the Treasury may have to adjust the budget.

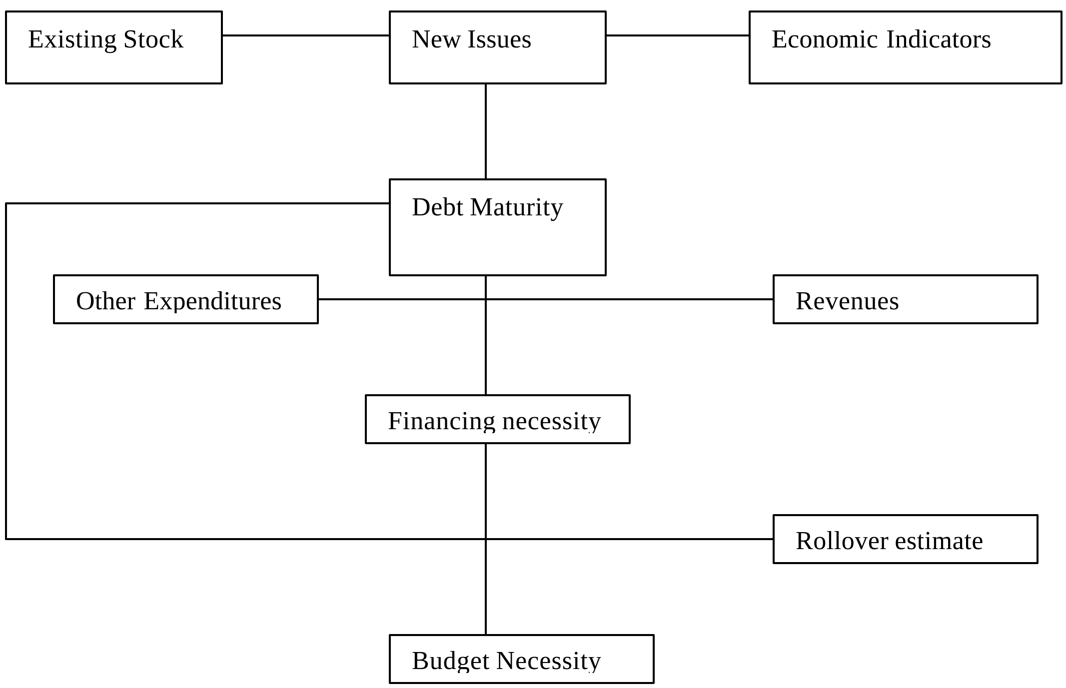
After the forecast of payments due to the existing debt, an estimate of issuances for the next year is done, including special government programs settled by law or related lawful instruments (TDA, PROEX, etc.), Treasury's Special Responsibilities, Structured Operations and Central Bank Result (if negative). Other expenses defrayed by Treasury Securities are the contractual debt of the Ministries and Kandir Law[2].

The forecast of the budgetary necessity includes the federal debt maturities and its rollover. Revenue 143 is for the payment of principal and Revenue 144 is for the payment

[2] The Kandir Law foresees the exemption of ICMS – Tax on Circulation of Goods and Services – on primary and semi-manufactured exports. The states are compensated by the loss of revenues imposed by the law.

of interest and other expenditures, being that the resources of both proceed from securities foreseen in the budget to be issued by the National Treasury.

The guidelines for public debt planning and financing strategy are at the Annual Borrowing Plan, published yearly by the National Treasury. The Management Committee of the Public Debt, instituted at the end of 2001, defines, each month, the strategy for financing for the following month, considering the direction established by the Annual Borrowing Plan. – A monthly issuance schedule is available at the site of the National Treasury



Source: Seminário Orçamento e Dívida Pública, STN/MPO 2002

CHARACTERISTICS

Security	Description	Yield
National Treasury Bills (Letra do Tesouro Nacional) – LTN	Security issued to cover the budget deficit.	Prefixed
Treasury Financial Bills (Letra Financeira do Tesouro) – LFT	Security issued to cover the budget deficit.	SELIC
National Treasury Notes (Nota do Tesouro Nacional) – NTN	Security issued to cover the budget deficit	NTN–C IGPM + interest p.ª NTN- D Exchange + interest % ªa. NTN – F Prefixed + interest % p.a.
Treasury Financial Certificate (Certificado Financeiro do Tesou–o) - CFT	Security issued for the realization of financial operations defined by Law.	CFT-A IGP + interest % p.a. CFT-B TR + interest % p.a. CFT–C SELIC + interest % p.a. CFT–D Exchange + Interesªp.a. CFT-E IGPM + interesª% p.a. Prefixed (CFT –F)
National Treasury Certificate (Certificado do Tesouro Na–ional) - CTN	Security issued directly to borrowers of agricultural credit, to serve as a guarantee of the debts renewal at the financial institutions	IGPM + interªt % p.a.
Public Debt Certificate (Certificado da Dívida–Pública) - CDP	Security issued to the exclusive finality to quit debts with the Instituto Nacional do Seguro Social – INSS.	TR + intªest % p.a.
Agricultural Debt Securities (Título da Dívi–atodarária) - TDA	Security issued with the finality to promote Agricultural Reform	TR + interest % p.a.
Treasury's Special Re–ponsibilities -Crédito Securitizado	Securities of responsibility of the National Treasury issued as a result of the assumption and renegotiation of Federal Debts or debts assumed by Law. Issued exclusively by documental (escritural) form at CETIP.	IGP + interest % p.a. Exchange + interest % p.a. TR + interest % p.a.
SELIC – Special System for Settlement and Custody	Central Depository of Securities issued by the National Treasury and the Central Bank	
CETIP – Central of Custody and Financial Settlement of Securities	Depository of Corporate Bonds, State and Municipal Government Securities and Securities that represent National Treasury's Special responsibilities	

Source: www.stn.fazenda.gov.br

FEDERAL DEBT STOCK (IN MILLIONS OF REAIS)

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03
Internal Debt	**575,019**	**512,116**	**599,228**	**602,800**	**621,757**	**633,899**	**656,070**	**663,167**	**676,009**
LTN	12,118	12,721	15,576	12,201	21,490	29,915	43,421	51,588	63,996
LFT	375,453	381,234	396,819	413,909	421,657	427,736	436,438	438,867	438,765
NTN-C	47,878	50,031	51,907	53,178	54,257	53,870	53,260	54,281	56,637
NTN-D	49,611	0	45,974	36,875	36,331	35,626	34,529	34,510	31,398
Treasury's Special Responsibilities	21,223	21,509	21,507	21,761	21,969	21,976	22,878	21,568	21,388
TDA	2,000	1,987	1,981	1,993	2,110	2,080	2,072	2,057	2,044
Others	66,737	44,634	65,464	62,882	63,943	62,695	63,472	60,295	61,782
Federal External Public Debt	**270,158**	**273,306**	**255,983**	**218,614**	**224,025**	**223,745**	**228,969**	**222,731**	**223,537**
Bonds	200,987	203,368	189,794	161,393	165,442	167,339	172,309	166,862	167,657
Multilateral Organisms	39,015	39,480	36,015	31,026	32,424	32,300	31,965	31,340	31,273
Private Banks/Governmental Agencies	11,969	12,081	11,364	9,792	9,352	9,284	9,572	9,559	9,413
Paris Club	18,187	18,377	18,810	16,402	16,807	14,822	15,123	14,970	15,193
Public Federal Debt	**845,177**	**785,421**	**855,211**	**821,414**	**845,782**	**857,644**	**885,039**	**885,897**	**899,546**

Source: Gerência de Informações e Estatísticas da Dívida Pública / CODIV

USA

AMERICAN BUDGET

Modern budgeting emerged in Europe during the nineteenth century and was imported to the USA early in the twentieth century. It is considered not only the number one political document of the country, but also its chief priority: the budget is a key instrument of steering economic policy and stabilizing household income (Schick, 2000) More than in any other country, there are major struggles on who should pay and who should benefit, which programs should grow and which should shrink and over how the tax burden should be distributed.

The way found to reduce this conflict is a very strong procedural routine. The budget is a result of a continuous process and it is possible to identify a 2-1/2 year cycle. For the Fiscal Year 2005 we have the following Budget timetable:

MARCH – AUGUST 2003 – Agency Budget Formulation

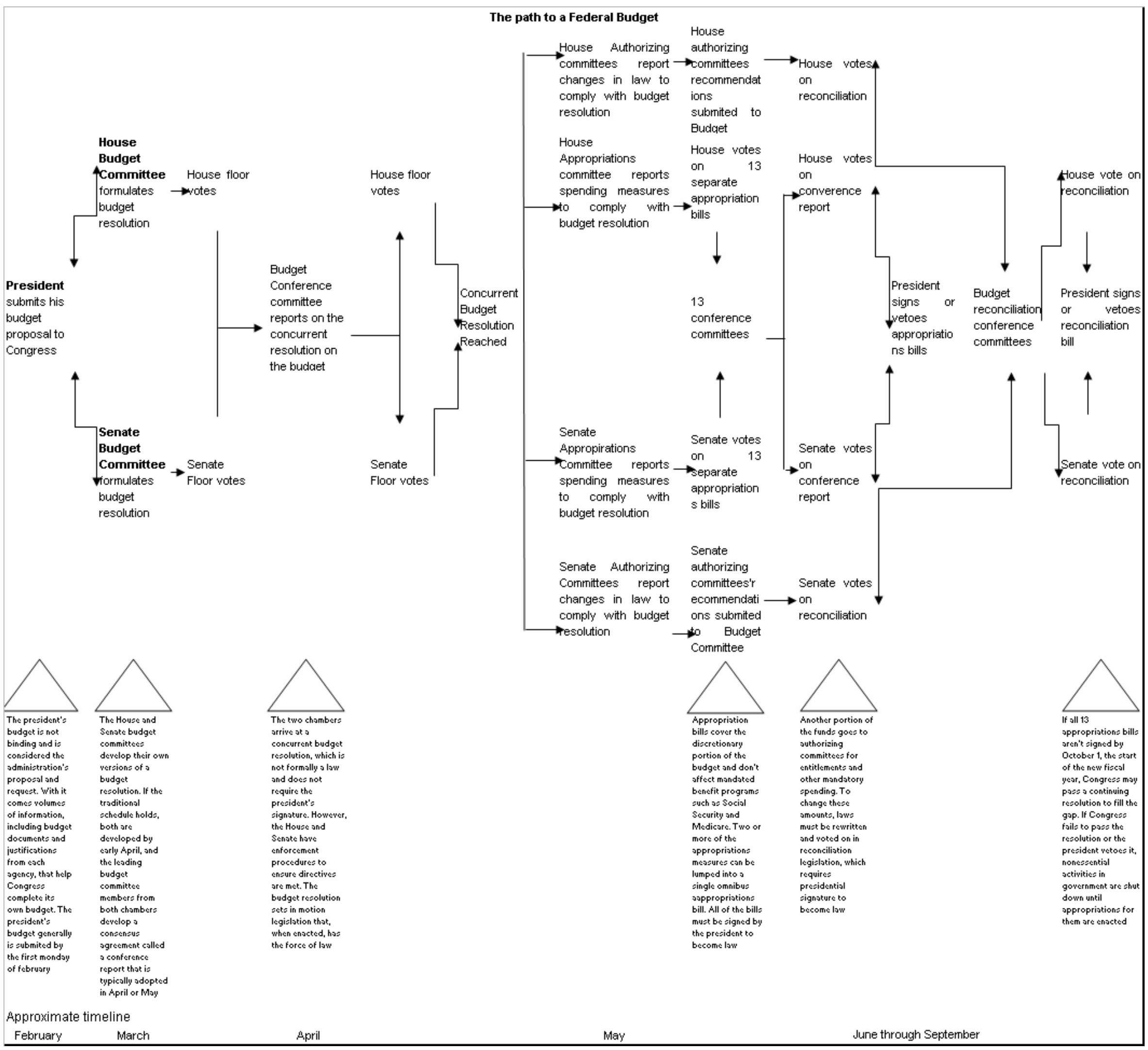
SEPTEMBER-DECEMBER 2003 – OMB - Office of the Management and Budget - Review and Pass back

FEBRUARY 2, 2004 – President's Budget Submission

APRIL 15, 2004 – Budget Resolution

APRIL 15, 2004 – October 1, 2004 – Legislative Action

OCTOBER 1, 2005 – DECEMBER 2006 – Financial Statements prepared and audits concluded.



Source: Material from PAD 251.10 Government Budgeting
By Seth Hamblin and Laura Stanton

The Congressional Budget Resolution – Congressional Budget Action involves four sets of committees. A set of House and Senate Committees has custody over one of the four types of budget actions - the annual budget resolution, revenue measures, authorizing legislation and appropriation bills. There are three legislative staff agencies CBO – Congressional Budget Office, GAO – General Accounting Office and CRS – Congressional Research Service-aid Congress in performing these tasks.

Congressional Budget Process Timetable

Deadline	Action to be completed
First Monday in February	President submits budget to Congress.
February 15	CBO submits report on economic and budget outlook to Budget committees.
Six weeks after President's budget is submitted	Committees submit reports on views and estimates to respective Budget Committee.
April 1	Senate Budget Committee reports budget resolution.
April 15	Congress completes action on budget resolution.
June 10	House Appropriations Committee reports last regular appropriations bill.
June 30	House completes action on regular appropriations bills and any required reconciliation legislation.
July 15	President submits mid-session review of his budget to Congress.
October 1	Fiscal year begins.

Source: http://www.house.gov/rules

BUDGET RESOURCES

There are two different ways of spending funds: one centered in annual appropriations, the other in mandatory legislation[3]. The budget consists of four main types of funds:

[3] Discretionary and Direct (Mandatory) Spending. A more recent method of classifying federal spending, arising from the procedural requirements of the Budget Enforcement Act of 1990, depends on whether the spending is considered to be discretionary or direct. Discretionary spending is provided in annual appropriations acts, which fall under the jurisdiction of the House and Senate Appropriations committees. Direct spending, also called mandatory spending, is provided in substantive legislation, which is within the jurisdiction of the authorizing committees of the House and Senate. Most direct spending involves entitlement programs funded by permanent appropriations. Some entitlement programs, however, are funded in annual appropriations acts, but such spending is considered to be direct spending (source: http://www.house.gov/rules).

GENERAL FUNDS: are not earmarked by law for specific purposes (there is no direct link between taxes paid and services provided). Almost all individual and corporate income taxes and user charges are deposited into the General Funds. The General Funds pays for the National Defense, interest on the public debt, the operating expenses of most federal agencies, many grants to state and local governments, and some entitlements. It accounts for two thirds of federal revenues and outlays.

TRUST FUNDS: are designated by law for particular purposes. By including social security and other trust funds in the overall budget, the federal government uses the balances in trust funds to finance its general operations. The long-standing practice has been for the government to borrow all trust fund balances and to pay the prevailing rate of interest on Treasury Bonds of comparable maturity. Trust Funds have no choice in the matter: they must lend their balances to the government.

SPECIAL FUNDS – Share characteristics of both the General Fund and Trust Funds. Although they are accounted for separately, special funds are grouped together with General Funds, under the label “Federal Funds”.

REVOLVING FUNDS – Carry out business-like activities, selling goods and services and using the income to finance their operations. They are recorded in the budget on a net basis: revenues minus outlays.

MAJOR LAWS

CONSTITUTION – The U.S. Constitution grants the Congress the power to levy taxes and requires appropriations to be made by law before funds may be drawn from the Treasury. It does not specify how these powers are to be exercised, nor does it assign a significant role for the president.

With its *power of the purse*, Congress created a committee structure and devised rules to carry out its financial responsibilities. It was designed to constrain executive authority. The Constitution prevents the president and federal agencies from spending money unless they have the authorization of the Congress.

Since the beginning, the House took the initiative on both revenue and spending bills. After the Civil War, both houses of Congress set up Appropriation Committees to assume jurisdiction over spending measures: the Ways and Means Committee (the House) and the Finance Committee (Senate), a practice that continues to the present day.

ANTIDEFICIENCY ACT (1905 – 1906) – Enacted by the Congress to regulate the budget execution. It requires allocation of appropriation by time period to prevent overspending. No incurring obligation could be made in advance of appropriations. It also states that it's illegal to spend in excess of appropriations or for purposes unintended by the appropriations.

BUDGET AND ACCOUNTING ACT (1921) – Establishes the presidential budget system that has operated for the past 80 years. It requires the president to submit a budget on behalf of the entire executive branch and provides him with the staff, the Bureau of the Budget (renamed the Office of the Management and Budget - OMB in 1970), to carry out these responsibilities. The main change was to give the president a formal role and a tool in the budgeting process.

CONGRESSIONAL BUDGET ACT AND IMPOUNDMENT CONTROL ACT (1974) – Creating a congressional budget process, the Act allows the Congress to adopt an Annual Budget Revenue that sets revenue, spending, the surplus or deficit, and debt totals. Congress has its own budget blueprint, economic assumptions program analyses, spending priorities, with the creation of its own Congressional Budget Office – CBO and the Senate and House Budget Committees (Schick, 2000).

The Impoundment Control Act requires the president to send special messages to Congress whenever he wishes to rescind or defer appropriated funds.

BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (1985) – Also known as the Gramm-Rudman-Hollings Acts, it set out to balance the federal budget by proposing fixed and progressively smaller deficit targets. If the projected budget deficit exceeded the specified target by more than the amount permitted, the cancellation of budget resources, called sequestration, is triggered (Shojai, 1999).

BUDGET ENFORCEMENT ACT (1990) – The law refers to the recognition of discretionary spending, subject to annual appropriations and mandatory (or direct) spending, sanctioned by permanent laws. It establishes limits on discretionary spending and pay-as-you-go rules for revenue and direct spending (Schick, 2000).

Discretionary spending requires prior program authorization by legislative committes and is subject to the annual appropiration process. Pay-as-you-go means that if Congress enacts direct spending or receipts legislation that causes a net increase in the deficit, it must offset that increase by either increasing revenues or decreasing another direct spending program in the same fiscal year (sequestration).

AMERICAN PUBLIC DEBT

The American debt was born in the War of Independence, when the Continental Congress authorized the issue of two million dollars of bills of credit called Continentals to finance the war. With the Constitution, the new federal government had the power to tax and *in January 1790, Alexander Hamilton, installed as the first secretary of the treasury, submitted his report to the Public Credit to Congress. He called for funding nearly all the government's obligations, including the state debts, into long-term federal securities payable in specie. The foreign debt was fully funded, as was most of the domestic debt* (http://www.publicdebt.treas.gov).

Hamilton's plan attracted foreign capital to the United States, increasing the effective stock of money, and stimulating the economy. The government had no trouble in borrowing, and by 1803, by 60% of the national debt was purchased by foreigners. By that time, deficits were relatively small and short-lived, exceptions occurring during wartime[4],

[4] The pattern of wartime debt expansion can be seen in the War of 1812 when the national debt nearly tripled between 1811 and 1816, in the Mexican War era when the debt more than quadrupled between 1845 and 1851, in the Civil War when the debt increased forty-two-fold between 1860 and 1866, in the Spanish-American War era when the debt rose 50 percent between 1893 and 1899 (although the larger part of this increase occurred before the war), and in World War I when the debt increased twenty-one-fold between 1914 and 1919. World War II also fit the pattern: the debt increased nearly sixfold between 1939 and 1946 (http://www.publicdebt.treas.gov).

territorial expansion and population growth. *If deficits were also occasionally affected by adverse economic conditions, these too tended to disappear when the economy recovered, the balanced budget norm coexisted with the notion that government should be small and limited* (Schick, 2000).

The emergence of peacetime deficits occurred with the increased fragmentation in Congress[5] and the growth of federal spending. To battle these deficits, the government introduced a national income tax and created an executive budget process.

After World War I, the Congress, in an attempt to restrain federal expending, passed the Budget and Accounting Act of 1921, granting a strong presidential leadership in the budget process, which had immediate success in regulating federal finance (By 1920's the public debt declined). *Then came the Depression and in its wake, the New Deal – a vast, permanent expansion in the scope, scale and cost of government. In 1929, federal spending totaled approximately 3% of GDP – a decade later – at the eve of the World War II; it was 10% (Schick, 2000).*

The 1950's were the age of "Imperial Presidency", when the budget was one of the president's chief tools to formulate programs, promote spending initiatives and preside over a new burst of governmental expansion. In order to promote national well-being, deficits were acceptable (the notion that the budget should balance the economy superseded the balanced budget norm).

[5] The House in 1865 and the Senate in 1867 separated revenue and spending jurisdictions by establishing new appropriations committees. In 1870 in the House and the Senate, were the legislative committee's seizure of control over half of the appropriation bills. This fragmentation of spending power led to higher federal expenditures.

The 1974 act expanded Congress's budget responsibilities but did not alter the formal role of the president. As before, the president submitted a budget each year, and Congress had the option of accepting or rejecting his recommendations. The Congressional budget process had the misfortune of being launched about the time the nation's economic performance deteriorated with the first oil-shock.

During the Reagan presidency a deficit explosion occurred, when the debt nearly tripled, as a result of policy mistakes and political impasse, due to tax cuts, with the purpose of stimulating the economy. President Clinton, in 1998 presented the first balanced federal budget (with no annual deficit) since 1969. By 2002, however, the large tax cuts enacted under President G. W. Bush, combined with the effects of an economic slowdown and increased expenditures on national security following the Sept. 11, 2001, attacks on the United States, led to new deficits and an increase in the national debt.

METHODOLOGY – STATUTORY DEBT LIMIT

Each year the House and Senate Budget Committees prepare a Resolution covering the next years, which specifies budget totals (total revenue, budget authority, outlays, surplus or deficit and public debt), and allocates spending among twenty functional categories including national defense, agriculture and health.

Additionally, the budget resolution may contain reconciliation instructions, directing specified House and Senate Committees to report legislation that changes revenue or spending laws in accordance with the policies set in the resolution. Legislation developed by the committees pursuant to these instructions is packaged in an omnibus reconciliation bill that is considered by the House and Senate under special rules that expedite its passage.

The Budget Resolution is not a statute and does not have legal effect, nor does it detail how federal funds are to be raised or spent. Rather, the Resolution establishes the framework within which Congress considers revenue and spending measures. As a blueprint, the status of the Budget Resolution varies from year to year. In some years it strongly influences budgetary decisions. In others, it has very little impact.

Borrowed funds are not included in receipts, and repayment of debt principal is not counted as an outlay. The US$ 2 trillion in annual revenues comes mostly from taxes, but money the government collects in the exercise of its sovereign power (such as the power to tax or to regulate), is counted as a budget receipt; money the government receives in the conduct of business-type operations (from the sale of assets, the income of government enterprises, and certain user charges) is counted as an offsetting collection.

THE STATUTORY DEBT LIMIT

The enactment of the first debt limit was in 1918. Before this, the Congress had to authorize each bond issue. The Treasury Department's authority to issue debt is limited by this statutory limit, which covers the borrowing needs and provides investment securities to Federal Trust Funds and other government accounts.

The statutory limit is applied to the combination of both types of debt[6] (held by the public and nonmarkeatable Treasury Securities issued to government accounts), and,

[6] The total value of outstanding securities issued by the federal government is referred to as federal debt or gross debt. It has two components: debt held by the public (federal debt held by nonfederal investors, including the Federal Reserve System) and debt held by government accounts (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). Debt subject to limit is federal debt that is subject to a statutory limit on its issuance. The current limit applies to almost all gross debt, except a small portion of the debt issued by the Department of the Treasury and the small amount of debt issued by other federal agencies (primarily the Tennessee Valley Authority and the Postal Service). Unavailable debt is debt that is not available for redemption, or the amount of debt that would remain outstanding even if surpluses were large enough to redeem it. Such debt includes securities that have not yet matured (and will be unavailable for repurchase) and nonmarketable securities, such as savings bonds. (Site http://www.fms.treas.gov)

according to the U.S. Treasury's web site, it's possible that Congress may need to increase the debt limit, even when the Federal budget is in surplus on an unified budget accounting basis, because money borrowed from Social Security and other trust funds is included in its scope. It is important to note that the debt limit, itself is rather archaic and unnecessary, since the Congress and the President have already agreed to the policies that created the debt (Professor Philip Joyce).

The House of Representatives has a special procedure for the statutory debt limit: by passing of the budget resolution, the debt limit legislation is also considered. However the Senate votes twice: for the budget resolution and for raising the statutory debt limit. If there's any change, it must be resolved, usually in a conference committee. After passing both Houses of Congress, it must be signed by the President.

On February 20, 2003, the Treasury bumped up against the previous debt ceiling, which stood at US$ 6.4 trillion. From that time until May 27, when the current debt limit of US 7.384 trillion was enacted in Public Law 108-24, the Treasury used several accounting measures to clear room under the ceiling, so it could continue to raise cash to finance government activities. Those measures – most of which had been used in previous debt-limit impasses – included suspending the issuance of certain securities held in the Thrift Savings Plan (a retirement savings and investment plan for federal employees), withdrawing compensating balances held at private banks, and suspending investments in the Civil Service Retirement Fund (Congressional Budget Office - The Budget and Economic Outlook- 2003).

Under current policies, the present debt limit may be reached sometime in the last quarter of fiscal year 2004. If a new ceiling has not been enacted by then, the Treasury will be forced to resort to similar accounting measures to finance its payments and stay under the ceiling. In the most recent debt-limit crises, such accounting measures have bought the Treasury enough room to remain below the limit for more than three months. (Congressional Budget Office - The Budget and Economic Outlook- 2003)

DESCRIPTION OF TREASURY MARKEATABLE SECURITIES

(a) **TREASURY BILLS** Interest rate: issued at discount. Discount rates, prices and investment yields are determined by auction process Maturity: One year or less
(b) **TREASURY NOTES** TREASURY FIXED-PRINCIPAL NOTES are issued with a stated interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount par or premium, depending upon the auction results TREASURY INFLATION-INDEXED NOTES are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal or at their par-amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. Interest rate: yield and prices are determined by the auction process. All Note auctions are in a single-price auction format. Maturity: at least one year, but not more than ten years.
(c) **TREASURY BONDS** TREASURY FIXED-PRINCIPAL BONDS are issued with a stated rate of interest to be applied to the par amount, have interest payable semi-annually, and are redeemed at their par amount at maturity.

TREASURY INFLATION-INDEXED BONDS are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually and are redeemed at maturity at their inflation adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par or premium, depending upon the auction results.

Interest rate: yields and prices are determined by auction process

Maturity: may vary, but, in practice, bonds are issued for terms of more than 10 years. Currently Treasury Bonds are offered with a 30-year maturity, except for "reopened" issues.

Source: www.treas.gov

REVENUES, OUTLAYS, SURPLUSES, DEFICITS, AND DEBT HELD BY THE PUBLIC, 1962-2002 (IN BILLIONS OF DOLLARS)

			Surplus or Deficit (-)				Debt Held by the Public[b]
	Revenues	Outlays	On-Budget[a]	Social Security	Postal Service[a]	Total	
1962	99.7	106.8	-5.9	-1.3	n.a.	-7.1	248
1963	106.6	111.3	-4	-0.8	n.a.	-4.8	254
1964	112.6	118.5	-6.5	0.6	n.a.	-5.9	256.8
1965	116.8	118.2	-1.6	0.2	n.a.	-1.4	260.8
1966	130.8	134.5	-3.1	-0.6	n.a.	-3.7	263.7
1967	148.8	157.5	-12.6	4	n.a.	-8.6	266.6
1968	153	178.1	-27.7	2.6	n.a.	-25.2	289.5
1969	186.9	183.6	-0.5	3.7	n.a.	3.2	278.1
1970	192.8	195.6	-8.7	5.9	n.a.	-2.8	283.2
1971	187.1	210.2	-26.1	3	n.a.	-23	303
1972	207.3	230.7	-26.4	3	n.a.	-23.4	322.4
1973	230.8	245.7	-15.4	0.5	n.a.	-14.9	340.9
1974	263.2	269.4	-8	1.8	n.a.	-6.1	343.7
1975	279.1	332.3	-55.3	2	n.a.	-53.2	394.7
1976	298.1	371.8	-70.5	-3.2	n.a.	-73.7	477.4
1977	355.6	409.2	-49.8	-3.9	n.a.	-53.7	549.1
1978	399.6	458.7	-54.9	-4.3	n.a.	-59.2	607.1
1979	463.3	504	-38.7	-2	n.a.	-40.7	640.3
1980	517.1	590.9	-72.7	-1.1	n.a.	-73.8	711.9
1981	599.3	678.2	-73.9	-5	n.a.	-79	789.4
1982	617.8	745.7	-120	-7.9	n.a.	-128	924.6
1983	600.6	808.4	-208	0.2	n.a.	-207.8	1,137.30
1984	666.5	851.9	-185.6	0.3	n.a.	-185.4	1,307.00
1985	734.1	946.4	-221.7	9.4	n.a.	-212.3	1,507.30
1986	769.2	990.4	-237.9	16.7	n.a.	-221.2	1,740.60
1987	854.4	1,004.10	-169.3	19.6	n.a.	-149.7	1,889.80
1988	909.3	1,064.50	-194	38.8	n.a.	-155.2	2,051.60
1989	991.2	1,143.60	-205.2	52.4	0.3	-152.5	2,190.70

1990	1,032.00	1,253.20	-277.8	58.2	-1.6	-221.2	2,411.60
1991	1,055.00	1,324.40	-321.5	53.5	-1.3	-269.3	2,689.00
1992	1,091.30	1,381.70	-340.5	50.7	-0.7	-290.4	2,999.70
1993	1,154.40	1,409.50	-300.4	46.8	-1.4	-255.1	3,248.40
1994	1,258.60	1,461.90	-258.9	56.8	-1.1	-203.3	3,433.10
1995	1,351.80	1,515.80	-226.4	60.5	2	-163.9	3,604.40
1996	1,453.10	1,560.50	-174.1	66.4	0.2	-107.5	3,734.10
1997	1,579.30	1,601.30	-103.3	81.3	*	-22	3,772.30
1998	1,721.80	1,652.60	-30	99	0.2	69.2	3,721.10
1999	1,827.50	1,701.90	1.9	124.7	-1	125.6	3,632.40
2000	2,025.20	1,788.80	86.6	151.8	-2	236.4	3,409.80
2001	1,991.20	1,863.90	-33.4	163	-2.3	127.3	3,319.60
2002	1,853.20	2,011.00	-317.5	160.3	-0.7	-157.8	3,540.40

Source: Congressional Budget Office.

Note: n.a. = not applicable; * = between zero and $500 million.

a. In 1962 through 1988, the Postal Service was on-budget and included in the on-budget total.

b. End of year.

CONSIDERATIONS

As mentioned previously in this paper, the public debt and budgeting is treated differently in Brazil and United States. The payment of principal and interest does not appear in the American budget because it's not an appropriation bill, it's a mandatory spending: by law, amounts for payment of interest on the public debt are available automatically without annual appropriation actions by the Congress (interest, paid with resources of the General Fund, appears in the budget as an authorization, with no number in it).

In Brazil, the refinancing of the federal public debt is separated from other expenditures, since controlling and transparency are parts of the policy of the debt management. Besides such procedure of refinancing allows the accurate analyses concerning the budget and its execution.

It can be seen that major differences between the Brazilian and American system for refinancing public debt is a result of a different political environment, and the differences in creating of debt. Public Debt has always been considered a direct liability for United States Government. Historically, since the eighteenth century, foreigner investors lent money to Americans in return for the government's promises to repay them in the future. Within the United States, debt owners could sell their federal securities for money, or use them as collateral for bank loans. For this reason, US'securities are considered the safest financial investment in the world.

Brazil has yet to create such a safe financial image. The need for transparency and control is a way to gain the confidence of the investor. The problem is that, if a rigorous limit is a good policy to constrain indebtedness, this makes dealing with debt more complex, because it limits alternatives available in dealing with economic crises.

ANEXO I (LOA 2004)
RECEITA DOS ORÇAMENTOS FISCAL E DA SEGURIDADE SOCIAL
POR CATEGORIA ECONÔMICA E FONTE

R$1,00

	ESPECIFICAÇÃO	VALOR
1.	RECEITAS DO TESOURO	**586.826.661.806**
1.1.	RECEITAS CORRENTES	**424.874.662.845**
	Receita Tributária	119.614.600.218
	Receita de Contribuições	260.576.524.219
	Receita Patrimonial	10.580.880.629
	Receita Agropecuária	1.344.056
	Receita Industrial	168.926.525
	Receita de Serviços	20.801.181.659
	Transferências Correntes	146.932.188
	Outras Receitas Correntes	12.984.273.351
1.2.	RECEITAS DE CAPITAL	**161.951.998.961**
	Operações de Crédito Internas	84.429.846.810
	Operações de Crédito Externas	34.263.329.657
	Alienação de Bens	480.923.760
	Amortização de Empréstimos	19.734.998.253
	Transferências de Capital	8.235.192
	Outras Receitas de Capital	23.034.665.289
2.	RECEITAS DE OUTRAS FONTES DE ENTIDADES DA ADMINISTRAÇÃO PÚBLICA FEDERAL INDIRETA, INCLUSIVE FUNDOS E FUNDAÇÕES PÚBLICAS	**10.818.606.029**
2.1.	RECEITAS CORRENTES	**5.425.965.685**
2.2.	RECEITAS DE CAPITAL	**5.392.640.344**
	SUBTOTAL	**597.645.267.835**
3.	REFINANCIAMENTO DA DÍVIDA PÚBLICA FEDERAL	**860.041.414.290**
3.1.	OPERAÇÕES DE CRÉDITO INTERNAS	**815.858.957.928**
	Títulos de Responsabilidade do Tesouro Nacional - Refinanciamento da Dívida Pública Federal	815.858.957.928
3.2.	OPERAÇÕES DE CRÉDITO EXTERNAS	**44.182.456.362**
	Títulos de Responsabilidade do Tesouro Nacional - Refinanciamento Dívida Pública Federal	44.182.456.362
	TOTAL	**1.457.686.682.125**

Source: http://www.planejamento.gov.br/arquivos_down/sof/orcamento_2004/PL_2004/anexo_I.pdf

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