Notes on Inequality and Poverty in Brazil: Current Situation and Challenges

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Brazil is one of the most unequal countries in the world. The paper analyses the causes of this inequality in terms of Brazil's development process, which has traditionally 'managed poverty' without making efforts to promote change in the socio-economic order: what the author terms 'conservative modernisation'. Accordingly, universal education and social security were not prioritised, and urban segregation, rural exclusion, and regressive taxation were reinforced. Since 2001, levels of inequality and extreme poverty in Brazil have fallen, the result of various socioeconomic factors. The paper particularly notes the positive impact of policies supporting wealth redistribution, such as increases in the minimum wage, expansion in social security coverage, and support for small-scale agriculture. Yet, a stubborn concentration of income, wealth, and assets amongst a minority remains. The author concludes that further progress will require radical urban, land, and fiscal reforms, along with greater political efforts to combat gender and racial discrimination.



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Brazil as a 'Belindia': a large, poor India coexisting with a small, rich Belgium¹

Brazil is one of the most unequal nations in the world, although it is one of the wealthiest. According to the United Nations Development Programme (UNDP), income inequalities as measured by the GINI index² are higher only than those of some very poor African countries such as Sierra Leone, Swaziland, Lesotho or Namibia. However, the World Bank ranks the Brazilian economy among the 10 richest in the world, with a Gross Domestic Product (GDP) of \$1.7 trillion PPP³, similar to the Italian GDP. Considering that the country has a population of 187 million⁴, its per capita GDP is in the order of \$9,000 PPP.

The country's high income concentration is revealed in figures: the richest one per cent of the population - less than 2 million people - have 13 per cent of all household income. This percentage is similar to that of the poorest 50 per cent - about 80 million Brazilians. This inequality results in poverty levels that are inconsistent with an economy the size of that of Brazil. According to data provided by the Institute for Applied Economic Research (IPEA),⁵ 30.3 per cent of the population or 54 million people, are considered poor⁶ and, within this group, 20 million people or 11.5 per cent of the population, are ranked as extremely poor⁷. This poverty level is much higher than the average 10 per cent in countries with a per capita income similar to that of Brazil: those countries have a poverty level more than three times lower than that of Brazil.

Inequality is keenly felt in rural areas, where a small number of large landowners - large farmers, owners of unused land and large rural entrepreneurs, who monopolise most rural areas in the country - coexist with millions of small landowners, landless workers and rural workers living in precarious conditions. Starting from an existing high level, land inequalities in Brazil are becoming yet more pronounced: the GINI index for land ownership rose from 0.827 in 1960 to 0.856 today. In other words the percentage of the total area occupied by the 10 per cent largest properties is approximately 78 per cent (Hoffmann, 1998; Gasques & Conceição, 2001).

The gap between the rich and the poor can be clearly observed in urban areas, where over 80 per cent of all Brazilians live today. The living conditions of a significant percentage of the urban population are inadequate, without access or with only precarious access to housing, infrastructure, public equipment and public health, education, culture, information, recreation, sports and transportation services, among others. According to data provided by UN Habitat, 38.5 per cent of all urban households were 'precarious' in 2005⁸. In addition, access to housing remains very unequal from the regional point of view. While housing conditions in 31.8 per cent of households in the southern region and 26.7 per cent in the southeast region are inadequate, this percentage rises to 70.1 per cent in the northern region, 59.7 per cent in the mid-west region and 53.5 per cent in the northeast region. Another serious problem is the housing deficit, estimated at 7.9 million units with 90.3 per cent of this

¹ This paper is a contribution for Oxfam International's debate and intervention in Brazil.

² The GINI indicator establishes a relationship between what would be a perfect income distribution and the actual situation. The indicator, therefore, measures the gap between one situation and another. Thus, the higher the social inequality, the higher the figure of the index. According to UNDP (2006), the country with the best GINI index in the world is Denmark (0.247) and the worst is Namibia (0.743).

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³ World Bank: World Development Indicators (WDI) database, 2006 GDP with Parity Purchasing Power (PPP), revised in September 2007. See the website: http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf

 $^{^{\}mbox{\tiny 4}}$ See population census of 2007 on the IBGE website at

http://www.ibge.gov.br/home/estatistica/populacao/contagem2007

⁵ IPEA. Políticas Sociais: Acompanhamento e Análise, n. 13, 2007a.

⁶ IPEA defines the number of <u>poor</u> people as the number of people with a monthly per capita household income of less than half the minimum wage.

⁷ IPEA defines the number of extremely poor people as the number of people with a monthly per capita household income of less than one quarter of the minimum wage.

8 UN Habitat defines households in great statement of the minimum wage.

⁸ UN-Habitat defines households in precarious settlements as a group of individuals living under the same rooof without at least one of the following elements: security of tenure, sound structural quality and durable construction, access to drinking water, access to a sewage system and a large enough area (IPEA & SPI, 2007).

deficit affecting poor families, that is, families with an income of less than 3 minimum wages a month (IPEA & SPI, 2007).

Poverty in Brazil has a colour and a location: it is black, urban and concentrated in the northeast region. Two-thirds of all the poor are black, 70 per cent of the total population living in poverty (38 million people) are city dwellers and 51 per cent (27 million) live in the northeast region. This contrast between a small rich country and a huge poor country was referred to by the Brazilian economist Edmar Bacha in the 1970s as the 'Belindia' model: an unfortunate mixture of Indian poverty and Belgian affluence.

The causes of poverty and inequality: conservative modernisation

The causes of poverty and inequalities have been addressed in a large body of specialised literature and in heated academic debates. It is not the intention here to engage in this discussion, but rather to list some of the socio-historical factors that can help us to understand the current gap between the rich and the poor, men and women, white and black people.

As mentioned in the previous section, the main reason why so many Brazilian families are living in poverty is not a general lack of resources, but rather their distribution. In contemporary democracies, inequalities and poverty result from tensions between the ethical requirements related to 'rights' and the imperative of economic efficacy; between the legal order that promises equality and the reality of exclusion brought about by the exercise of power.

Historically, in many western countries, there came a time when social disparities were so extreme that society mobilised governmental mechanisms and, through laws, public policies and changes in the tax system, forced some degree of redistribution to eliminate the most extreme forms of poverty and inequality and preserve social cohesion.

In Brazil, whether as colony, empire or republic, no efforts have ever been made to promote the inclusion of the poorest segments of the population. The country developed throughout the 20th century with a significant number of extremely poor people. This development process, which 'manages poverty', has been described by development experts as a 'conservative modernisation' model, describing a situation that produces significant changes in the economy without breaking the established economic-social order or by breaking it only very slowly. From the social point of view, the Brazilian-style 'conservative modernisation' translates, for example, into the lack of regulation in the labour market. Over half of the working population, amounting to about 45 million male and female workers, do not enjoy any labour rights (unemployment insurance, insurance for work accidents, paid vacation, maternity and paternity leave, family allowances, retirement and pensions). What this means is that although Brazil is now part of the select group of the world's wealthiest nations, the country has not managed to ensure formal wages and minimum social protection to most of its workers.

Low schooling levels are another consequence of this perverse development model. Ensuring universal access to quality education to sustain development was never given priority. Today, the illiteracy rate in Brazil is still 10.2 per cent. In addition, the average number of years of schooling of the population aged fifteen and over is 7.2, when, legally, it should be at least eight years. Although indicators have improved in recent years, the quality of education also leaves much to be desired. Data of the PISA programme¹⁰ of the Organization for Economic Cooperation and Development (OECD) showed that Brazil ranks far behind other nations in terms of learning in various knowledge

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⁹ Edmar Bacha, O Economista e o Rei da Belíndia: Uma Fábula para Tecnocratas, in Jornal Opinião, São Paulo, 1974.

¹⁰ Programme for International Student Assessment. More information can be found at: http://www.pisa.oecd.org. The objective of the PISA programme is to compare the performance of countries in the area of education. For this purpose, tests are applied to students aged 15 at three-year intervals in nations which participate in the programme.

areas. The results of the PISA programme show that the average scores of Brazilian students in 2006 place the country in the 53rd position in mathematics, in the 52nd position in sciences and in the 48th position in reading in a ranking involving 57 countries. Apart from having had the lowest scores among all these countries, the majority of Brazilian students reached, at most, the lowest learning level in these disciplines.

The conservative approach can also be felt in rural areas through agribusiness, which strengthens the economic power of large landowners and neglects the unskilled wage-earning labour force and the mass of small farmers that are not linked to the prevailing agricultural model. In this process, the peasantry is reduced to a huge subsistence sector. According to Gasques and Conceição (2001), the potential beneficiaries of land reform would be made up of a little over six million families of rural wage-earners and unemployed people, landless small farmers or farmers with insecure access to land (farmers who do not own land of a sufficient size to make a living from agriculture). This is a population of about 25 million people making up a huge sector that cannot be assimilated by agribusiness or by the urban economy.

The exclusion process can also be felt in large cities, where major changes in production processes and in the appropriation of urban space combine with each another. These changes are reflected in social-spatial restructuring processes in urban areas that enhance the segregation problem or 'social apartheid'. Significant segments of the population are forced to live not only outside the formal labour market, but also without access to appropriate housing and basic public services that are necessary for a decent life such as sanitation, education, health, culture, sports, recreation and transportation.

Another facet of this inequality- and poverty-reinforcing model is that it builds and maintains a regressive tax system that imposes a particularly heavy burden on consumption and labour, sparing the large capital. According to data from the 2004 Consumer Expenditure Survey (POF) carried out by the Brazilian Institute for Geography and Statistics (IBGE), the tax load for the richest segments of the population, that is, for those who earned more than 30 minimum wages a month, amounted to 26.3 per cent of the family income, while for the country's poorest workers, that is, for those with a monthly income of less than two minimum wages, the percentage was almost twice as high, namely, 48.8 per cent. The most dramatic aspect of this situation is that the difference has been increasing over time (Salvador, 2007a). As Rubens Ricupero, former Secretary-General of UNCTAD, very appropriately highlighted, 'no serious measures can be taken to put an end to extreme poverty and inequality without forcing the richest segments of the population not only to pay taxes, but to pay much more than others'. (Ricupero, 2003).

This logic is also reflected in spending on social policies, which has been systematically reduced. In the early 1990s, a mechanism was established which allows the Federal Government to withhold 20 per cent of all taxes and contributions earmarked for social actions. These earmarked funds amount to billions of reals used every year to ensure the required surplus for paying interest on and amortising the country's debt¹¹. In other words, inequality is enhanced because, on the one hand, the wealthiest (public debt creditors) are favoured and, on the other hand, the assistance provided to poorer populations is reduced.

It should also be emphasised that discriminatory relationships can be experienced in different situations and not only between the rich and the poor; there is also gender- and race-based discrimination. The exclusion experienced by women and black people is directly related to sexist and racist phenomena. In fact, the persistence of gender and race inequalities for decades indicates that individuals continue to be actively discriminated against as a result of their sex or color in different

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¹¹ To illustrate this situation, it suffices to say that between 2005 and 2006 about R\$ 66 billion initially earmarked for different areas of social security, health and the social work system were not used as intended. This is equivalent to seven years of the Family Grant programmeme (*Bolsa Família*), whose annual budget amounts to R\$ 9.2 billion. In the area of education, it is estimated that between 2000 and 2007 R\$ 45 billion were not applied in this sector as a result of this mechanism, which is referred to as DRU - Delinked Revenues of the Federal Government (Salvador, 2007a).

spheres of society such as schools, the labour market, political circles and in the family. The consequences of the continuation of these inequalities are perverse. It makes the differentiated participation of women and black people in different social spaces appear to be normal thus reinforcing the stigmatisation of these different groups; it hinders them from achieving their individual potential and prevents the exercise of their rights as Brazilian citizens. They are denied the equal opportunities that the country should be offering to all its citizens. In addition, the exclusion processes experienced by women and black people strengthen the hierarchical and authoritarian features of society and widen the social gap that characterises contemporary Brazil. Therefore, racial and gender inequalities are not restricted to issues that affect only part of the national population - black people and women - they represent a problem that affects Brazilian society as a whole.

Recent improvements – less income inequalities and poverty

Despite this inauspicious scenario, Brazil has been experiencing improvements in recent years in poverty reduction and, particularly, in income inequalities. According to data provided by IPEA (2007b), the current level of inequality in the distribution of labour income is the lowest for 30 years. In addition, between 2001 and 2006, a marked reduction in inequality was observed: the GINI coefficient dropped by a little more than 6 per cent during this period, which is a significant drop in such a short period of time. From 2001 to 2004, the income of the poorest 70 per cent grew, while that of the richest 10 per cent dropped. Since 2004, all population segments have been earning a higher income, but the increase was higher for the lowest-income segments. Despite the drop observed in inequality levels, both poverty and extreme poverty levels did not decrease until 2003 due to the weak performance of the Brazilian economy, among other reasons. However, from 2004 on, as economic growth resumed 12 and the opportunity for action by the State was expanded, both began to drop: extreme poverty decreased by 4.9 per cent a year between 2004 and 2006 and poverty dropped by 2.7 per cent a year during the same period.

Some factors and redistributive State actions led to improvements

Various factors explain the improvements observed in income distribution and poverty levels in Brazil. For example, the demographic changes observed in the country in recent years played a key role in producing this result. The change observed in the age structure of the population pyramid resulted in the so-called 'demographic bonus'. This means that the constant increase in the labour force, which is expected to continue to grow until 2030, keeps the ratio of the dependent population (children and old people) in relation to active workers at a low level. The greater participation of women in the labour market is another positive factor, as it contributed to increases in the family income. Today, women account for a little over half (52.6 per cent) of the economically active population (EAP) an increase from one-third (30.1 per cent) in 1980. The percentage of the family budget provided by women increased from 30.1 per cent in the early 1990s to 40.1 per cent in 2006.

Another relevant factor is the progressive consolidation of democracy¹³, which made it possible for parties with different political ideologies to take turns in power. There was greater participation of organised civil society in making and monitoring public policies.

The more favourable performance of the economy in recent years (the Brazilian GDP grew by 19 per cent in real terms between 2000 and 2006) associated with an increasingly qualified labour force, was

12 Variations in the Brazilian GDP (IPEA 2007a):

 Years
 2001
 2002
 2003
 2004
 2005
 2006

 GDP Variation
 1.3 per cent
 2.7 per cent
 1.2 per cent
 5.7 per cent
 2.9 per cent
 3.7 per cent

¹³ Brazil began to redemocratise in the mid-1980s, when a military dictatorship that had lasted 21 years came to an end. A new Constitution was promulgated in 1988, which established the Rule of Law and a Social State, defined the right of citizens to social protection, and the duty of the State to ensure this right. The Constitution also ensured the participation of organised civil society in making and following up on public policies. This is why the then president of the Constituent Assembly, Ulysses Guimarães, referred to the Carta Magna of 1988 as the 'Citizen Constitution.'

also important, as it made possible more job creation and increase in incomes, particularly for poorer people. As a result, six million formal jobs were created between 2001 and 2006. However, the actions taken by the State, under increasing pressures from social movements and non-governmental organizations, were, without any doubt, the main factor leading to this improvement. In particular, it was brought about by policies and programmes that expanded the coverage of social rights provided for in the 1988 Constitution. Some of the main measures taken include:

- A real increase in the minimum wage, which has a direct impact on the income of workers (38 million workers earn less than the minimum wage each month), as well as on the income of retired individuals, pension holders and beneficiaries of support programmes (there are about 24 million people who receive cash transfers in the amount of a minimum wage). Besides the increase in the minimum wage, which today is about \$200 a month, there was a relative decrease in the prices of food, resulting in a reduction in extreme poverty and food insecurity indices. According to studies carried out by the Inter-Union Department of Statistics and Socio-economic Studies (DIEESE),¹⁴ a worker who earned a minimum wage each month in the city of São Paulo in April 1997 had to work for 202 hours to earn enough money to buy basic food; in April 2002, this was reduced to 158 hours of work; in April 2007, it was only 109 hours of work.
- Expanded coverage of monetary benefits such as, for example, social security benefits (20.5 million people receive retirement benefits or pensions), benefits granted to elderly or disabled poor people (2.8 million people), conditional income-transfer programmes¹⁵ (the Family Grant Programme assists about 11 million families living in poverty or 45 million people) and the Child Labour Eradication Programme (PETI assists one million people). Studies carried out by Hoffmann (2005) and IPEA (2007a and b) reveal the important role played by cash transfer policies in reducing poverty and social inequalities in Brazil. Simulations made by IPEA for 2004 show that if the cash transfers from the State were removed from the household income of extremely poor people, the percentage of people falling under this category would double, from 11.3 per cent of the population to 22.6 per cent, and the percentage of poor people would increase from 30.1 per cent to 41.7 per cent (IPEA, 2007a).
- Greater efficiency of the public apparatus, which contributed to increasing the tax revenue and also to inspection activities for the purpose of fighting slave labour, child labour and raising levels of regulation in the labour market and, consequently, the social protection available to workers.
- Expansion of the Brazilian Social Protection System both in terms of the total allocation of financial resources and the coverage of beneficiaries. Therefore, despite de DRU mechanism (see footnote 10), federal spending on social policies (i.e., social security, social work, health care, education, employment and income, land development, housing, food and nutrition) is now at the level of 14 per cent of GDP whereas in the mid-1990s, this percentage was 12 per cent. Over a 10-year period from 1995 to 2005, the federal social spending increased by 74 per cent in real terms, from R\$ 179.8 billion to R\$ 312.4 billion (constant values for December 2005). It is estimated that this figure would be twice as high if the resources from states and municipalities were added to it (Abrahão et al, 2008).
- More subsidised credit for family agriculture. The volume of resources allocated to the National Programme for Strengthening Family Agriculture (PRONAF) increased over 70 times in the 1995-2005 period, from R\$ 89 million to R\$ 6.4 billion (current values).

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¹⁴ See the DIEESE website: http://www.dieese.org.br/rel/rac/cesta.xml

¹⁵ It should be noted that the role of conditional income-transfer programmes such as the Family Grant (*Bolsa Família*) programme and the Child Labour Eradication Programme (*PETI*) in reducing inequalities is important, although not as important as actions such as the real increase in the minimum wage or social security benefits or other benefits. The contribution of conditional cash transfer programme to bringing the GINI index down is about 25 per cent. This difference is largely attributed to the amount of the benefits: in fact the cash transfers of programmes such as the Family Grant programme (*Bolsa Família*) are determined by the government at its discretion and, in general, they are much lower than the minimum wage; in addition, the amount is adjusted randomly and infrequently. Social security and assistance benefits are provided for in the Constitution and correspond to the minimum wage and they are, therefore, adjusted annually in real terms, like the minimum wage.

Challenges: radicalisation of democracy

Despite the more optimistic scenario observed recently, there are still great challenges to be faced, considering the magnitude of Brazil's inequality and poverty rates, as indicated above. It should be mentioned that the improvements observed in income distribution refer only to income from labour and do not take into account profits, dividends, rents and interest rates, which are major sources of wealth for the country's most affluent families. If it were possible to measure the actual gap between the rich and the poor, the results would very likely not be as encouraging as they seem. According to Pochmann (2004), five thousand 'very rich' families, which account for 0.001 per cent of all Brazilian families, keep 3 per cent of the total national income and their assets amount to approximately 40 per cent of the Brazilian GDP. Moreover, according to official data for national accounts, the share of wages in total income has been dropping steadily during the past 10 years, from 45 per cent of GDP in 1994 to a little over 30 per cent today (DIEESE, 2006; Garcia, 2008). It can thus be seen that social inequalities are more complex than they seem.

There are structural issues that should be addressed in order that assets and power be redistributed in the country and to support actions being taken in Brazil to ensure more social justice. One of these issues is the need to implement an effective land development policy¹⁶ to ensure democratic access to land and strengthen family agriculture. It is also necessary to carry out urban reform to ensure the right to the city and appropriate housing for all the population, as well as fair access to public infrastructure, equipment and services.

Tax reform is urgently needed to promote fiscal justice and make sure that the rich pay proportionally more taxes. It is also urgently necessary to adopt a public spending approach designed to expand social rights and to interrupt or even revert, historical indirect income transfer flows from those who have less, namely, workers and productive sectors, to rent-seekers.

Political reform is crucial to enhance the direct, participatory and representative dimensions of democracy. It is also necessary to strengthen public policies designed to fight racial and gender discrimination and expand affirmative action to foster the inclusion of women and black people. For gender and race inequalities to be tackled appropriately, it is also necessary to take specific concomitant measures to ensure universal access to quality public goods and health care, education, social security, sanitation, housing, unemployment insurance, training and professional development services, among others. A democratic society is one in which basic opportunities offered to individuals do not make any distinction based on sex, race, ethnic group or social background. These basic opportunities constitute the pillars for equal opportunities and treatment, which in turn ensure the equity we all yearn for.

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¹⁶ Land Reform has been given little attention by the federal government: since the programme was created, only 700,000 families were settled. This is a small number as compared to the 6 million families which the programme can potentially cover, according to calculations of Gasques and Conceição (2001), who also state that the federal administration spent R\$ 20.4 billion to restructure the land system between 1980 and 2001. This is a small sum to address the problem: investments made in land-related actions in the last two decades amount to only one year's revenue of agricultural/livestock exports.

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