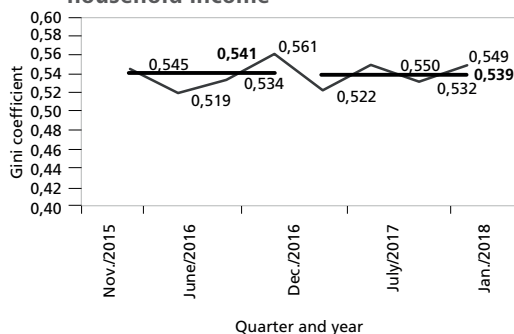


INEQUALITY IN BRAZIL FROM 2016 TO 2017: A DECOMPOSITION EXERCISE AND LABOR MARKET ANALYSIS OF VIRTUALLY NO CHANGE (WHICH IS GOOD NEWS)

Sergei Soares
Researcher at Ipea.

This article uses recently released data from the *Pesquisa Nacional por Amostra de Domicílios Contínua* (PNAD *Contínua*), Brazilian household survey to calculate changes in inequality as measured by the Gini coefficient from 2016 to 2017. Unfortunately, for Brazil as a whole, there is little to analyze, since the Gini coefficient barely changed between 2016 and 2017 and the *Instituto Brasileiro de Geografia e Estatística* (IBGE) has not yet released data for 2012 to 2015. The following figure shows the changes in the Gini coefficient from 2016 to 2017.

FIGURE 1
Gini coefficient of *per capita* household income



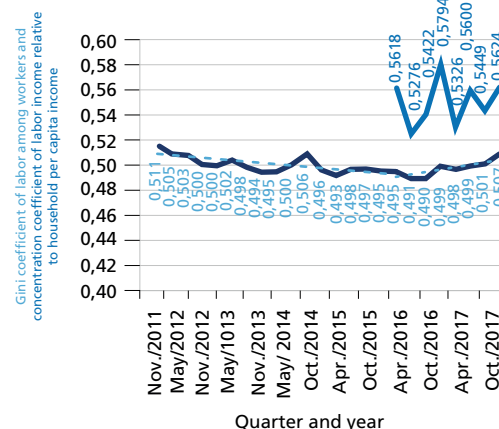
Source: PNAD *Contínua*/microdata.
Elaborated by the author.

A Shorrocks decomposition by factor components is also undertaken. The most relevant change is that the income share of labor income has become smaller. This, together with a modest reduction in its concentration coefficient (CC), has led labor income to reduce the Gini coefficient by 0.7 Gini point between 2016 and 2017. On the other hand, an increase in the income shares of capital income and social security income, both of which are regressive (capital highly so) undid about 0.5 point of the 0.7 point

due to labor income. The net result is the small 0.18 point reduction in the Gini coefficient seen in figure 1.

A labor market analysis was also undertaken and the results are shown in figure 2. The labor market, on its own, would lead to an increase in inequality, but since public transfers account for more than 20% of household income, they have had the power to stop the increase in household inequality. The Brazilian social protection system suffers from many problems: it is very expensive, it is barely progressive, it is poorly targeted and it provides very high transfers to wealthy families. Nevertheless, it has managed to keep inequality stable through a deep and long recession, which is no small achievement.

FIGURE 2
Labor income: Gini (individual) and concentration (household) coefficients



Source: PNAD *Contínua*/microdata.
Elaborated by the author.

So according to the Shorrocks decomposition, the labor market led to lower inequality but this was largely cancelled out because of social security. However,

according to the labor market Gini, inequality among workers led to higher inequality, which was entirely cancelled out by social protection.

The answer to the conundrum depends on whether you are looking at workers or households. The labor market is generating higher inequality among individual workers and, if there were no social protection (especially no social security), this would lead to higher household inequality. Social protection incomes, however, reorders households. This is no small reordering and involves large groups of people (mostly households with retirees) going from the lower to the upper parts of the income distribution. This means that the large increase in individual inequality generated by the labor market is transformed into a small decrease in the contribution of labor income to household inequality because many of the losers, while having low labor incomes, are in higher income families due to social protection incomes.

SUMÁRIO EXECUTIVO