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Social Policies and the Fall in Inequality in Brazil: **Achievements and Challenges**

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By the end of the first decade of the 21st century, the most usual international depiction of Brazil is that of a burgeoning, upcoming country. Although in many ways frankly exaggerated, this marks a stark contrast with a not-so-distant past. This turnaround has had a lot to do with favourable international circumstances, but it also owes a lot to extensive reforms that made possible something that was almost unprecedented in Brazil: pro-poor growth.

Dynamic Decomposition of the Gini Index of Household *Per Capita* Income Brazil, 2001-2009

Income Sources		Composition Effect	Concentration Effect	Total	As % of ΔGini
Labour	*Minimum wage*	-0.010	0.001	-0.010	17.9
	Other	-0.001	-0.024	-0.025	45.5
Pensions	*Minimum wage*	-0.009	0.003	-0.006	10.5
	Other	0.000	0.000	-0.001	1.0
Bolsa Família and predecessors		-0.006	-0.001	-0.007	12.7
BPC		-0.003	0.000	-0.003	5.7
Other		-0.001	-0.003	-0.004	6.7
Total		-0.031	-0.024	-0.055	100

Source: Pesquisa Nacional por Amostra de Domicílios, 2001 and 2009.

The end result was a robust consumer-led economic boom with an average GDP growth rate of 4.4 per cent per year between 2004 and 2010, the highest since the late 1970s. During that period, a thriving labour market created over 10 million formal jobs. After decades of rising or stagnant inequality, the Gini index of the household per capita income fell by 9 per cent during the 2000s. As a result of both trends, extreme poverty—as measured by the World Bank's US$ PPP 1.25/day poverty line—declined abruptly, from 14 per cent in 2001 to less than 5 per cent in 2009.

The contribution of social expenditures to such encouraging results should not be underestimated. Since adoption of the 1988 Federal Constitution, and especially since the mid-1990s, the Brazilian social policies have finally both enlarged their scope and improved their redistributive role, although there is still a long way to go. For instance, in 2006, the four largest social expenditures—on public education, public health care, Social Security and Social Assistance—amounted to a hefty 19 per cent of the GDP, or 56 per cent of the total tax revenue.

While these expenditures represent a serious fiscal burden, their benign effects should not be downplayed. The table displays the dynamic decomposition of the Gini index by factor components between 2001 and 2009 (Souza, 2011). It is striking that the Bolsa Família and the BPC programs—the largest targeted cash transfers in Brazil—are responsible for over 18 per cent of the reduction in income inequality, even though they add up to less than one per cent of total income. The contribution of the income sources tied to the minimum wage—which rose by 81 per cent during this period, reaching US$ PPP 270 in 2009—amounted to 28 per cent of the decline in inequality.

Given recent trends in the labour market, it is unsurprising that labour market income displays the single largest contribution to the fall in inequality. One of the key factors behind this shift is that Brazil finally managed to increase the overall educational attainment while simultaneously diminishing the inequality of educational opportunities. Between 2001 and 2009, the mean years of schooling rose by 21 per cent (from 6.8 to 8.3) while the Gini index of years of schooling fell by 17 per cent (from 0.347 to 0.288).

Such changes in the educational attainment of the workforce contributed to the decline in earnings inequality. The dynamic GE(0) decomposition of labour income by population subgroups shows that a more homogeneously educated labour force sustained a dominant income effect—69 per cent of the total reduction in earnings inequality—as declining returns to education narrowed the income gaps among the different levels of educational attainment.

Despite such advances, Brazil is still a middle-income country with an unacceptably high level of income inequality, and thus it is imperative to remain on track and keep the recent trajectory of pro-poor growth going. This means that the challenges will probably be increasingly more difficult, but there are reasons for optimism. The renewed commitment to social programs since adoption of the Constitution has largely turned them into valuable tools to reduce poverty and inequality. Moreover, it is clear that there is still plenty of room for improvement. Much-needed resources for education and health care, for example, could be obtained by reforming the Civil Servants' Social Security, which is not only inordinately expensive (about 4.3 per cent of GDP in 2006) and regressive (its sizable pensions benefit mostly the upper-middle classes), but also runs huge annual deficits. Likewise, some policies that could greatly further reduce poverty and inequality—such as land reform—have largely been cast aside and should be brought back to the political agenda. In one way or another, such obstacles will to be faced if Brazil is to continue on a socially inclusive trajectory.

Reference:

Souza, P.H. F (2011) *Poverty, Inequality and Social Policies in Brazil, 1995-2009. IPC-IG Working Paper No. 87.* Brasilia, IPC-IG.

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