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Poverty, Inequality and Social Policy in Brazil

Poverty in Brazil stems not so much from the low level of average income as from the existence of very strong inequalities. Education, as in other countries, is the best tool for improving social mobility. Nevertheless, while the income "yield" from education in Brazil is high compared to other countries, it has diminished over the last two decades. The interaction of structural reform and low growth have weakened parts of the middle class. For poverty rates to fall, growth has to be stronger, and more effective social policies need to be implemented than was previously the case. The strategy of the Lula government to reduce poverty is based on greater conditionality of aid at the individual level and the tighter targeting of the redistribution policy. This may lead to tensions with alternative demands for consolidating the existing social security system, centred on the salaried middle classes.

Policies of economic liberalisation have been under attack in developing countries for several years. This is due notably to the difficulties countries face in moving from structural reform to growth, due to macroeconomic instability and even financial crises, to the unequal sharing-out of the costs of reform and their possible benefits. Such problems prevent social progress from being presented as the sole result of fully-developed economic reforms, whereby any policy for redistribution would cause economic inefficiency and lower growth rather than social equity.

Brazil is one of the most interesting countries to examine from this perspective. It is a very large country (180 million inhabitants), with an intermediate income level ($6800 at purchasing power parity), and which has been strongly liberalised since 1990. It is also a country with an extremely unequal distribution of income, despite relatively developed social policies. These account for nearly 40% of public spending, or about 15% of GDP. Lastly, as is widely known, the reduction of poverty is a clearly stated priority of President Lula da Silva, who came to power in January 2003.

A Most Unequal Country

The basic observation made about Brazil is indeed overwhelming. Indicators of inequality converge to show that Brazil (along with South Africa) is probably the world's most unequal country. The existence of a significant share of the population which is defined as poor (34%), or destitute (14%), does not a reflect the low, average income of the country, but stems from problems of distribution. In other countries with comparable GDP per capita, the share of poor people is, on average, only 10%[1]. In a large majority of countries, the ratio of the top 20% of incomes to the lowest 20% is less than 10, with a median of around 7 (8 in France). In Brazil it is 32. In other words, the annual income of poorer population represents a mere eleven days income for the rich[2]. To take another example: nearly 50% of disposable income goes to the richest 10%, whereas the poorest 50% share scarcely more than 10% of income. The overall level of inequalities has been little affected by the economic crises of the last twenty years, though poverty is more sensitive to

1. R. Barros, R. Henriques & R. Mendoça, "A estabilidade inaceitavel: desigualdade e pobrez non Brasil", IPEA, Rio de Janerio, Texto para discussao 800, June 2001 (http://www.ipea). Poverty is defined by an absolute poverty line ($1.50 dollars in Brazil, with destitution being 70 cents). Equality, in contrast, is related to the total structure of the distribution of income, and may be presented using a far larger number of indicators.
2. The richest 20% of Brazilians (36 million people) have an average income comparable to average French income.

shocks, and is especially slow to respond to growth. In other words, economic growth alone does not bring about a strong and spontaneous fall in the number of poor people: active social policies are needed.

Moving beyond such global figures, the "profile" of poverty is sociologically highly marked. Brazil's North East is the home to 46% of the poor (and 63% of the destitute), though it only accounts for 30% of the total population. The poor are over-represented in agricultural (40% of the poor) and the informal sectors (57%), or among families with many inactive members (young children). The poor are also young (37% of the under-16 year-olds are poor), and black (who account for 46% of the population but as much as 65% of the poor)[3]. Lastly, though efforts have been made recently to diminish differentiation linked to place of residence, this still remains an important factor: poverty is most extreme in rural areas and falls progressively and regularly with the town size, reaching its lowest levels in the centre of the major metropolises[4].

The Central Role of Education

Analyses of the causes of poverty underline, in Brazil as elsewhere, the central role played by education: 68% of Brazilians who have not completed their first four years of primary education are poor, as compared to 15% who have studied more than 8 years (and a mere 1.9% of those with 12 years of education). Income inequality thus reflects the insufficient investment which has been made in education, over a long period of time. To be sure, there has been some progress: the average number of years in education rose from 3.2 to 5.3 years, between 1976 and 1996. But even this latter average remains far behind levels found in comparable countries, which run between 9 and 11 years (Argentina, Chile, Mexico, Turkey etc.). Above all, education of the poorer children is especially neglected: their education levels are less than those observed for India, Zimbabwe, Tanzania or Uganda[5].

The corollary to this situation is that Brazil's degree of social mobility is lower than in most neighbouring countries. A strong correlation may also be observed between relative education levels (and hence revenue) from one generation to the next: the probability that a Brazilian will have the same level of education as his/her parents is 70%. Though this inter-generational correlation is falling, it remains substantially higher than in Peru and Mexico (about 50%), to say nothing of the United States (35%)[6]. The implications in terms of public policy are reinforced by the recent observation that among the social factors determining education and income, parents' education is the only variable whose impact has fallen in recent decades, thus permitting greater social mobility. All the other classical characteristics of an unfavourable socio-cultural environment (for example, the father's profession, region, race) affect younger generations as much as their parents' or grand-parents'generations. In short, access to schooling is indeed the key instrument for raising social mobility and reducing inequalities of opportunity between social classes[7].

A last factor to be taken into account is that under-investment in education in Brazil is all the more damaging given that the return on education is higher than in other Latin American countries: an extra year of education is associated, on average, with an increase in income of 14%, as opposed to 8.5% in Argentina or 11% in Chile (see Table). This is probably partly due to the fact that the average level of education is lower in Brazil than in these countries, making skilled labour more scarce. But it also reflects the very high opportunity cost of leaving school early.

Table – Returns on educational investment* in Latin America, 2001 (in %)

Dominican Republic	7.5
Argentina	8.5
Venezuela	9.5
Uruguay	10,0
Chile	11,0
Mexico	12.2
Columbia	13,0
Brazil	14.2

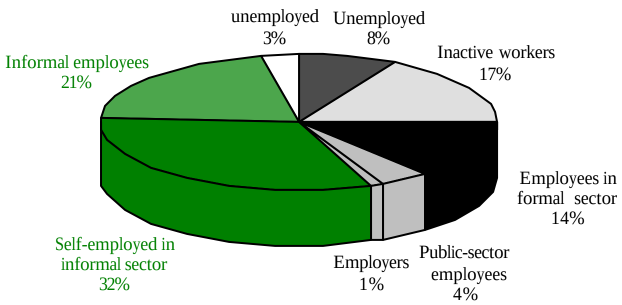
* Average additional income associated with another year of education.
Source: N.A. Menezes-Filho (2001), see footnote 4.

On the other hand, there has been a three percentage point fall in the returns on primary and intermediate education, since the 1970s. Slow economic growth, running at an average of 1.5% over the last twenty years, has led to weak demand for labour and only a slow shift in resources into sectors creating higher value added. The poor suffered a

3. According to econometric analysis, race does not seem to be a determining factor of extra discrimination for workers in the labour market, as opposed to institutional and social factors determining income at the point of entry into the labour market (education, health, access to public infrastructures etc.).
4. F.H. Ferreira, P. Lanjouw & M. Neri (2003), "A Robust Poverty Profile for Brazil Using Multiple Data Sources", *Revista Brasileira de Economia*, January-March. This study, which takes into account different regional price levels and uses the highest poverty threshold presented here, indicates that for a national poverty rate of 45%, poverty in rural areas reaches 78%, as opposed to 32% in the suburbs of the major metropolises and 23% in the centres.
5. See N.A. Menezes-Filho (2001), "A Evolução de Educação e seu Impacto no Mercado de Trabalho", Rio, Instituto Futuro Brasil, <http://www.ifb.com.br/bibliografia.asp>. See also M. Neri & D. Costa (2002), "O Tempo das Crianças", mimeo, IBRE/FGV, <http://epge.fgv.br/portal/pessoas/docente/2001.html>.
6. J. Behrman, A. Gaviria & M. Székely, "Intergenerational Mobility in Latin America", IADE/BID, Working Paper, No 452, June 2001.
7. F. Bourguignon & F.H. Ferreira (2003), "Inequality of Outcomes and Inequality of Opportunities in Brazil", Rio, PUC, Texto para discussão 478 <http://www.econ.puc-rio.br/>. A key variable is nevertheless missing from this estimation (as the authors themselves recognise) namely parents' wealth. This may clearly be transmitted from one generation to another, and will necessarily have a major impact in a country in which income flows have been differentiated for so long. But, surprisingly, no data exists to analyse this issue.

notable fall in working incomes during the 1990s, which was only offset by social transfers. It is thanks to these transfers that Brazil's social trends over the past decade appear to be somewhat more favourable than in neighbour countries[8]. Lastly, on top of the long-running problem of extreme poverty, there has been a general worsening of living conditions among wage-earners. According to Marcelo Neri[9], the 1990s saw deep structural reforms and poor growth undermining parts of the middle class which are relatively well-educated and integrated in the formal economy (Graph 1). Rising unemployment among intermediate professional groups has been pushing down the returns to education[10]. Though limited, the risks of downward social mobility or repeated crossing of the poverty threshold (both upwards and downwards) is henceforth greater than in previous decades.

Graph 1 – Poverty by type of activity: distribution of poor households according to the profession of the head of household



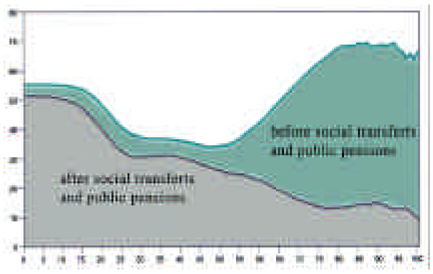
Source: Data from the National Household Survey (PNAD), 2001, graph taken from Marcelo Neri, see footnote 9.

What Social Policies?

Overall, an assessment of Brazil's social policies remains highly ambiguous. They have provided a noticeable, though insufficient rise, in the level of education. They have had a tangible effect on rural poverty, but a lesser impact in large cities. Public infrastructure has also been developed regularly (access to running water, electricity, waste collection etc.), whereas as public security has continued to deteriorate.

Moreover, experts generally consider that significant resources are poorly used[11]. In particular, they stress how little social policies redistribute income: according to a common estimate, only 25% of spending reaches the poor population. Another reason for these poor results is that the elderly population is disproportionately supported (see Graph 2). Young people are aided relatively less than pensioners, at precisely the moment when they develop their capacities to obtain satisfactorily-paid work, later in their lives. Very little is done, for example, to encourage adolescents to stay on at school, rather than work for a miserable income.

Graph 2 – Poverty rates over the life-cycle
(percentage of the poor according to age, in years)



Source: National Household Survey (PNAD), 1999, graph taken from Barros & Carvalho (2003), see footnote 11.

These imbalances raise questions concerning the competition between two models of social policy. The first is a universal model, largely taken from European countries, but which in fact applies mainly to the formal wage labour, if not the public sector. It is centred more on the middle classes. The second is a discriminating model, which is oriented towards poverty reduction and which tends to develop at the expense of the former, both implicitly and in relative terms. The crux of the Lula government's social policy strategy, as well as the social and political conflicts it faces, lie in modifying the balance between these models. This will also define, most probably, the social and political conflicts which the government is likely to face in the coming years[12], as was already reflected by the resistance to public pension reforms in 2003.

Beyond this, there are three further dimensions to the government's policies on who should and should not be supported. First, social transfers should be better targeted, which assumes better micro-social information (censuses, surveys etc.). Second, government programmes need to be better coordinated, especially between federal government, States and municipalities. Lastly, on the basis of recent experiences, aid should carry individual conditionality. In other words, financial support should be tied more closely to commitments made by recipients (and to verification) relating, for instance, to children's schooling, care for pregnant women, improved adult literacy, vaccinations *etc.* The "Zero Hunger" programme, which President Lula launched on taking office, also applies such conditionality, alongside other programmes that are now included as part of the "Bolsa Familia" programme, presented in October 2003.

8. F.H. Ferreira, R.P. Barro (1999), "The Slippery Slope: Explaining the Increase in Extreme Poverty in Urban Brazil, 1976-1996", World Bank, *Working Paper* 2210.
9. M. Székely (2001), "The 1990s in Latin America: Another Decade of Persistent Inequality, but with Somewhat Lower Poverty", IADE, Research Department Working Paper 454.
10. A conference was held by the CEPII, the 28 November 2003, <http://www.cepii.fr/anglaisgraph/meetings/2003/281103.htm>.
11. See in particular, R.P Barros & M. Carvalho (2003), "Desafios para a Politica Social Brasileira", IPEA, Texto para Discussão 985, October. See also, M. Lisboa *et al.* (2002), *A Agenda Perdida, diagnosticos e propostas para a retomada do crescimento com maior justiça social*, Rio de Janeiro.
12. J. Sgard (2003), "Le réformisme radical de Lula", *Critique Internationale*, 20, July.

Such conditionality, which has already provided tangible results in other Latin-American countries[13], especially in the field of education, is based on principles similar to those put forward by Amartya Sen: rather than simply support consumption by the poor, redistribution policies should strive to improve their structural capacity to obtain a sufficient income through their existing economic activities. Support should therefore take the form of investment, which should also lead to a more favourable participation in public life than that brought about by traditional programmes.

Parallel to this strategy, which focuses on persons and families, a series of reforms should also reduce the structural barriers which the poorest face in acceding to the various markets on which their economic activities are dependent. This is the case of the labour market, or for instance the access by small producers to wholesale agricultural markets[14]. The banking system has however received particular attention. It is highly rationed, and raises problems of protecting individual savings, as well as supplying credit to SMEs and micro-firms. The inability of financing profitable projects, even when very small, clearly has a negative impact on economic growth and job creation. There is also a spatial side to this, which holds back the development of rural regions and of poor suburbs in major towns (*favelas*). The answer to these problems lies first in the development of banking instruments which are appropriate to the informal sector (bank accounts, micro-credits). This should also be linked to the reform of property rights, as well as collateral and bankruptcy procedures, with the aim of facilitating access to credit[15].

A key issue runs through all the questions concerning poverty and linking it to the general structure of the Brazilian economy and society, namely the growing importance of the informal sector (more than 50% of the economy). This trend contributes to social inequality, economic inefficiency and the fragmentation of the public realm, which raises not just problems of insecurity. The expansion of the informal economy cannot simply be explained by the economic stagnation of the past twenty years, but follows also from an inadequate institutional framework that can only be reformed step-by-step (property rights, the tax structure, labour market regulation, goods market access, the tools for State intervention *etc.*). This explains why, in a country where growth has a limited impact on poverty, the major reform issue concerns public institutions and the quality of those people who lead them: their competencies and information, their capacity to resist corruption, as well as their ability to articulate overall objectives with targeted, locally-implemented policies. Without this, a key piece will quickly be missing from Lula's programme: the effectiveness and hence the legitimacy of the efforts required of those who are not among the country's poorest.

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13.L.B. Rawlings & G.M. Rubio (2003), "Evaluating the Impact of Conditional Cash Transfer Programs, Lessons from Latin America", World Bank, *Policy Research Working Paper* 3119, August.

14. Distributing unused agricultural land to peasants with no land also lies within this framework, even though this policy, which would remain gradualist, would only affect a small share of the rural poor.

15. See A.C. Pinheiro & C. Cabral (1999), "Mercado de Credito no Brasil : o papel do juidiciaro e de outras instituções", Rio, BENDES, Ensaios n°9 (http://www.bndes.gov.br). For a more general study, see also A. Kumar, editor, (2003), "Brasil, acesso a serviços financeiros", World Bank.

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