

Flavio Comim

### Poverty and Inequality Reduction in Brazil throughout the Economic Crisis

#### Introduction

In the last decade Brazil has experienced multiple development transformations that have barely been captured by traditional notions of development. The impact of the current international financial and economic crisis was moderately felt in the country and Brazil has indeed closed the first decade of this century with unprecedented social achievements. Its poverty level was 50.64% between 2002 and 2010, measured by its more demanding national poverty line<sup>1</sup>. Income inequality, measured by the Gini coefficient<sup>2</sup>, fell from 0.60 in 2000 to 0.53 in 2010. More than 40 million people have improved their standard of living, being reclassified within the country as “middle-class”. Even during the worst of the crisis in 2007/2008, 10 million people experienced increases in their standard of living, migrating to a higher level.

Brazil is a country better characterised as currently going through an “intermediary level of development”. It has seen structural economic, social and institutional changes that have impacted on how it has managed the current international financial crisis, volatility in its capital flows and foreign investment, and the price of commodities etc. More importantly, Brazil has implemented some reforms that have dramatically changed its domestic markets and built a new international agenda around the concept of horizontal cooperation. Brazil has managed to survive the current international financial crisis with impressive social progress, namely, with the highest poverty reduction in its history and a decrease in its income inequality.

Brazilian economic history has been shaped by dubious success stories. Import substitution policies in the 1960s and 1970s were not sufficient to create a sustainable basis for Brazil’s develop-

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#### Abstract

Brazil in the last decade has experienced high growth and investment rates which have sparked multiple development transformations. In particular, it has reduced its poverty level, increased the equality in the distribution of income and it went through some structural changes. Due to these transformations, the country has managed to weather the effects of the financial crisis better than other areas of the world.

*Flavio Comim, Universidade Federal Do Rio Grande do Sul (UFRGS) and University of Cambridge*

(\*) The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI.

<sup>1</sup> For this calculation the national poverty line of R\$ 151 was used (US dollars exchange rate of approximately 1.7 for November 2011).

<sup>2</sup> The Gini index is a measure of inequality among values of frequency distribution (for example, of the level of income), ranging from 0 (maximum equality: income is distributed equally among all the population) to 1 (maximum inequality: one person has all the income).

ment, and the 1980s and early 1990s saw a country divided by high inequality and chronically-high inflation. However, following key macroeconomic adjustment policies from the mid-1990s (involving reforms in the exchange rate regime, for instance) the country started a new era with more social competitiveness and a different approach to social poverty and inequality.

The country's attitude towards the international financial crisis reflected a domestic political consensus built around three sets of social policies: i) strengthening of domestic markets by governmental procurement and tax relief schemes, ii) increases in basic income transfers and iii) increases in social security spending. These policies were shaped by the new institutional environment created by the 1988 Brazilian Constitution that saw the Brazilian state as a promoter of social rights. With inflation under control after the "Real Plan" in the mid 1990s, the Brazilian government pushed social reforms that were responsible for poverty and inequality reduction throughout the end of the boom period and the beginning of the current international economic crisis.

In what follows below, this paper characterises the nature of poverty and inequality reduction achieved in Brazil (parts 1 and 2). Subsequently it critically assesses the putting forward of a new development agenda for the country (part 3) before concluding.

## Poverty Reduction

Brazil is not a poor country, but one with many poor people (see Mello, 2009). It is the world's seventh largest economy with a GDP (Gross Domestic Product) of \$US 2.3 trillion (PPP - Purchasing Power Parity) but one in which 16.27 million people live in extreme poverty (measured by \$US 1.25). Its HDI (Human Development Index)<sup>3</sup> places the country as the 84<sup>th</sup> highest (2011), still in the "high human development" category but with many social shortcomings.

Poverty reduction has become an important political issue in the country since the launch of the "Zero Hunger" Programme back in 2001. This programme was part of the national food security policy born in 1993 when the "Citizens' Action against Hunger and Poverty for Life" mobilised society for the institutionalisation of new mechanisms to reduce poverty and improve food security in the country, such as the creation of the National Food Security Council (CONSEA - Consejo Nacional de Seguridad Alimentaria), regulatory stocks, procurement policies for small farmers etc. The Zero Hunger Programme highlighted the importance of tackling structural development shortcomings in the country, such as those regarding social security, agrarian reform, family farming, food security stocks and the school meal programme, among others.

New policies were created to generate jobs and increase poor families' incomes. Credit was made available, through the mobilisation of official banks in microcredit schemes to promote local agricultural production. Based on the National Household Surveys that measure poverty in the country as income poverty (based on \$US 1.25), it is possible to estimate the decrease in poverty in Brazil as from over 17 million people in the mid 1990s to around 9 million in 2009 (see Graph 1 below). There are current debates in Brazil about the size of the poor population in the country, given that Brazil's 2010 Census estimates the number of people living on less than \$R 70 per month (approximately \$US 1.25), plus those who cannot access basic provisioning of public services, to be 16.27 million. In any case, according to all monetary poverty measures poverty has sharply decreased in the country throughout the economic crisis.

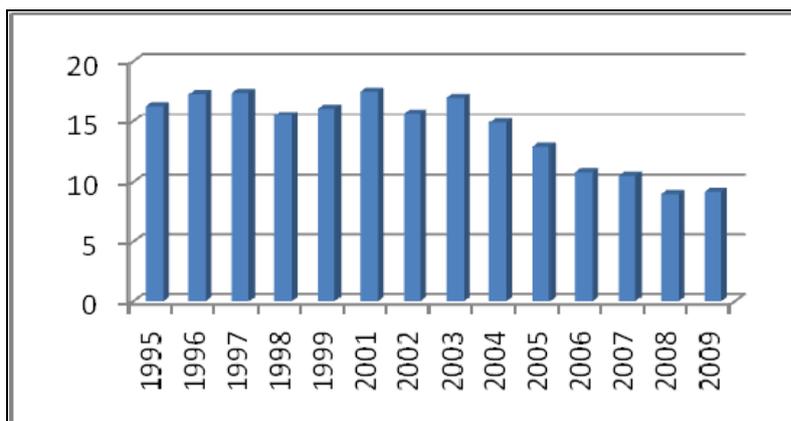
Brazil progressively changed its fiscal policy during the worst years of the economic crisis (2007-2009). It reduced taxation on durable goods such as cars, while increasing spending on social trans-

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<sup>3</sup> The Human Development Index is a composite index measuring the level of development of a country, taking into account three dimensions (health, literacy, wealth). It has been developed following the capability approach. For an in-depth explanation of the methodology [http://hdr.undp.org/en/media/Fu\\_HDI.pdf](http://hdr.undp.org/en/media/Fu_HDI.pdf).

fers, and pushed for a minimum wage valorisation policy. At the same time, little was changed in the country's monetary policy (exchange rates continued to be high at around 12% during the crisis) and trade policies that pushed commodities to become an important source of foreign currency for Brazil. The domestic market was little affected by international fluctuations, and those social policies that started back in 1988 with the new Constitution kept the government's focus on the poor within its social budget (see Neri, 2009).

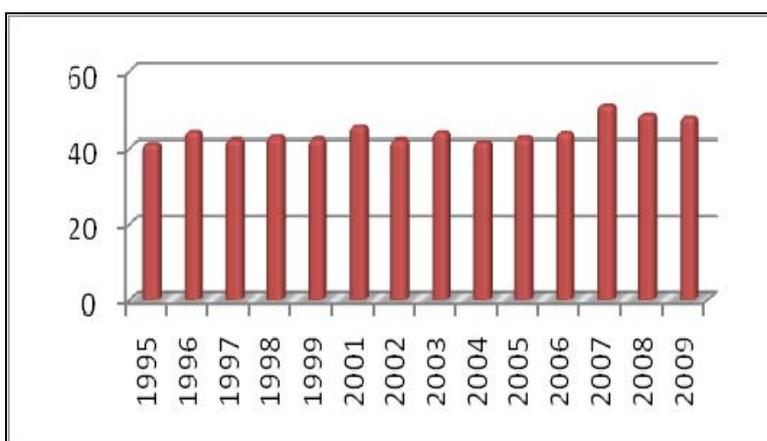
**Graph 1 - Brazil: people living in Poverty (1995-2009)**



Source: Instituto Brasileiro de Geografia e Estatística (IBGE).

However, it is important to note that poverty reduction policies in Brazil, organised around social transfers and a heated domestic labour market, were not very effective in reducing poverty among the poorest of the poor. It can be noted (see Graph 2 below) that the average poverty gap increased, meaning that only the richest of the poor were able to benefit from these policies. This is not surprising, given the strong regional inequalities in the country, with the rich southeast and south regions contrasting with the much poorer north and northeast regions.

**Graph 2 - Average Poverty Gap<sup>4</sup> (1995-2009)**



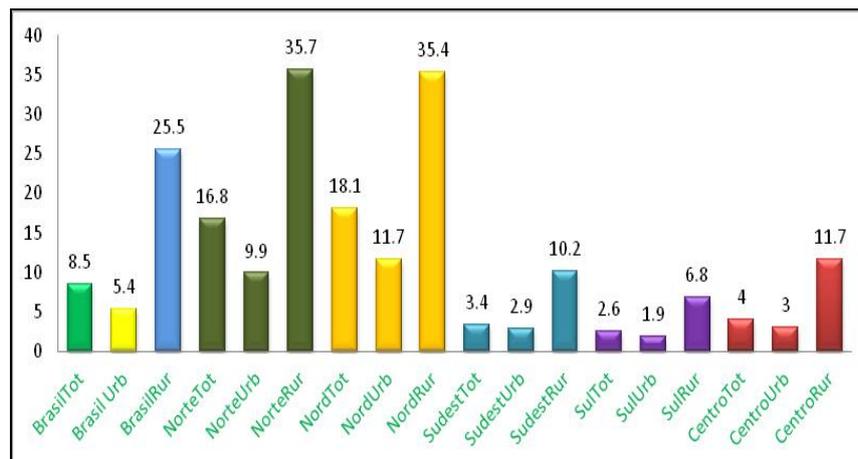
Source: Instituto Brasileiro de Geografia e Estatística (IBGE).

<sup>4</sup> The average poverty gap can be calculated as the amount of income necessary to bring everyone who is in poverty right up to the poverty line, divided by total population.

It is important to note that when broader measures are used to characterise the evolution of poverty in Brazil, the general trend of progress is maintained but some figures suggest new aspects of poverty not fully accounted for by strictly poverty measures. One such aspect is food insecurity, a problem that affected 30.2% of the Brazilian population in 2009. Whereas 18.7% of the population could be considered only slightly insecure, 6.5% were classified as moderately food insecure and 5% strongly food insecure. Contrary to what could be expected by measures of extreme poverty that indicate that most poor Brazilians live in rural areas (see Graph 3 below, which shows that 25.5% of people living in rural areas are poor), food insecurity indicators suggest that 14.6 million Brazilians who are food insecure live in urban areas, compared to 3 million living in rural areas.

The economic crisis did not affect the structural policies that have been shaping Brazilian social investment for almost 20 years. Significant cuts in social spending were not registered. Rather, social transfer programmes such as 'Bolsa Família' increased their outreach to more than 12 million families in the country last year. It seems relevant to mention that Brazil had presidential elections at the end of 2010 and that most likely for this reason no adjustments were implemented during the year, as they were made in early 2011. In any case, Brazil's increasing trade with Asia has compensated for the negative effects of the economic crisis more meaningfully experienced by European countries and the US.

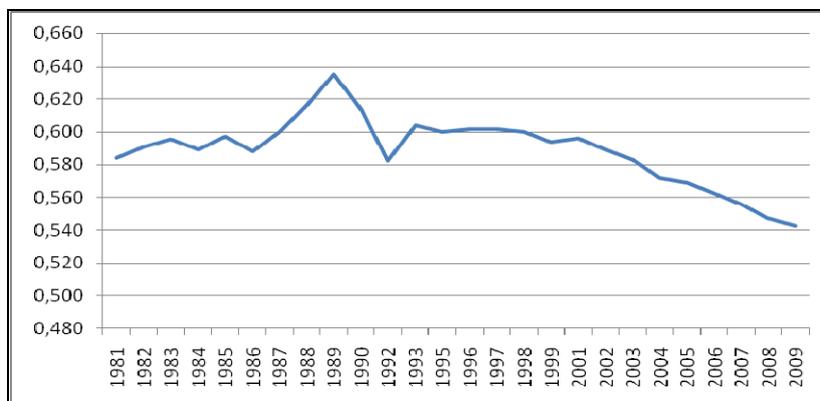
**Graph 3 - Extreme Poverty in Brazil 2010**



Source: Instituto Brasileiro de Geografia e Estatística (IBGE), National Census.

## Inequality

Income inequality in Brazil is part of its history. From the 1970s to the early 2000s it fluctuated around a Gini coefficient of 0.6 (see Henriques, 2000). But inequality started decreasing at the beginning of the new century, partially as a result of pro-poor economic growth and partially as a consequence of social transfers such as "Bolsa Família" that targeted very poor families in remote areas of the country. Estimates provided by IPEA suggest that inequality decreased even during those years in which average per capita income decreased in Brazil (as happened after exchange rate fluctuations in 1999, see in particular the reduction in 2003). This point is important because it reveals that inequality trends in the country (measured by Gini, Theil or other indicators such as 10/40 or 20/20 ratios) are more affected by long-term social and economic trends than short-run variations. Graph 4 below illustrates these trends by displaying the results for the Gini coefficient. It is interesting to note that the current economic crisis had little effect on the income inequality path in Brazil. Recent analyses (see for instance the 2011 Human Development Report) suggest that the Brazilian Gini coefficient has broken the 0.64 threshold and that its long-term trend should point to a continuous decrease in inequality in the country.

**Graph 4 - Income Inequality measured by the Gini Coefficient (1981-2009)**

Source: Instituto de Pesquisa Econômica Aplicada (IPEA)/Instituto Brasileiro de Geografia e Estatística (IBGE).

Not many countries in the world have been able to reduce their Gini coefficient by 5 points in recent years. As argued above when illustrating the policies responsible for poverty reduction, there are two major factors behind this decrease in income inequality as well, namely income transfer programmes such as 'Bolsa Familia' and the strengthening of domestic markets that followed a pro-poor path with the inclusion of 40 million people in the middle class markets.

Agriculture had an important role to play in this transformation. Today, small farmers that benefited from new governmental programmes (credit, commercialisation schemes etc.) are responsible for 70% of all food consumed in the country, contributing to lower inflation levels that are essential for lower poverty and inequality in the country. In addition, big farmers are a considerable source of foreign currency for the country (they produce over \$US 100 billion annually with their most important crops such as soybeans, corn, cotton etc.) keeping Brazil's balance of payments under control, and allowing an appreciation of its currency (Brazilian real) that has protected it from the financial speculation that has arisen from the current economic crisis. It is true that Brazil's very high interest rate (around 12% aa) is the main source of attraction of short-term foreign currency.

But inequality manifests itself not only in income distributions. More importantly perhaps, inequality is also a pervasive feature of other areas of development, seen from a human development perspective. When the Brazilian HDI is corrected for the inequality within its dimensions, we can see that 27.7% of its value is lost (see inequality-adjusted HDI in HDR 2011). This figure is slightly higher than last year's 27.2%, suggesting that inequality has increased in Brazil's human development dimensions. Indeed, these figures can be seen in Table 1 below:

**Table 1 - Losses in Brazil's human development dimensions for 2010 and 2011**

Years and Dimensions	Health – loss %	Education – loss %	Income – loss %
2010	16.6	25.7	37.6
2011	14.4	25.7	40.7

Source: Human Development Report (HDR) 2010 and 2011

The inequality-adjusted HDI is calculated based on micro-data, which produces different information than that provided by national Gini calculations. In any case, it raises the point about different dimensions of inequality still pervading Brazilian society and that recent progress is still a long way from a more equal society.

## Development Challenges Ahead

Brazil did not participate (or participated only modestly) in the long economic boom that shaped the developed economies' recent trajectory ahead of the current economic crisis. Its economic growth rates were not very high, its price assets did not substantively increase, it did not benefit from serious foreign investment etc. So, when the crisis unravelled there was not much to adjust in the Brazilian economy that benefitted from high foreign reserves and a new institutional setup, such as a new exchange rate regime. Brazil was pro-active in its fiscal policy in order to keep aggregate demand at high levels. Most importantly perhaps, the long-term social policies responsible for poverty and inequality reductions before the crisis were not discontinued. Quite the opposite, the number of families contemplated by income transfers increased to over 12 million by late 2010, signalling a political consensus in the country that the state had a role to fulfil as a provider of social rights for its population.

However, it would be misleading to suggest that everything in Brazil's social policy is good news. The original Zero Hunger programme lost its initial power and was progressively replaced by "Bolsa Familia" that is more straightforward but less articulated than the original programme put forward by President Lula when he was elected back in 2002. Its new extension, a programme called "Brazil without Misery", focuses on extreme poverty (those people living in families whose per capita income is below approximately \$US 1.25 per day) and seems to reduce the complexities in fighting poverty in the country back to the old issue of income transfer. Indeed, official IPEA documents suggest that two thirds of "Brazil without Misery" can be achieved within "Bolsa Familia".

This new poverty reduction programme mostly targets people living in rural areas and seems inadequate for tackling issues such as indigenous poverty and gender inequalities (given that it calculates poverty according to household estimates, ignoring differences between men's and women's income). The programme introduces an obscure concept of poverty as a "political-administrative" construct, suggesting that poverty lines should be fixed not according to calorie requirements or social exclusion standards but rather in the light of the government's possibilities to achieve poverty reduction as a policy objective. There is also a great divide between educational standards, that has not been bridged during these years in which the official inequality and poverty statistics have decreased in the country. Very recently, a test named "ABC" was carried out with 6000 Brazilian children attending their 3<sup>rd</sup> year of primary school. The results (see Table 2) are shown below:

**Table 2 - Maths scores (in % of correct answers) of 3<sup>rd</sup> year grade children in Brazilian schools**

	Public schools	Private schools	Average scores
Brazil	32.6	74.3	42.8
North	21.9	67.7	28.3
North-east	25.2	54.7	32.4
South-east	35.6	80.6	47.9
South	44.5	86.3	55.7
Centre-west	40.6	78.9	50.3

Source: ABC test carried out by "Todos pela Educacao", "Ibope", "Inep" and "Cesgranrio".

Whereas children in the poorest parts of the country (north and north-east) attending public schools, scored a little over 20% of correct answers, other children from the most privileged backgrounds attending private schools in richer regions scored over 80% of correct answers. Results for literacy were less dramatic but also illustrate this divide between public and private schools in a country where equal opportunities are a distant dream for the poorest. Apparently, at least, there is no link between this divide and the current economic crisis. Instead, it may have opened up more places and opportunities abroad for the richest in the country who can afford higher education abroad.

It seems a paradox that in the midst of poverty and inequality reduction, human development progress has been weakening in Brazil over the last decade. Data published by the 2011 Human Development Report, presented in Table 3 below, show a deceleration in the Brazilian HDI during the last decade.

**Table 3 - Brazilian HDI average growth rates (1980-2011)**

	1980-2011	1990-2011	2000-2011
Average growth rates	0.87	0.86	0.69

This should come as no surprise because life expectancy in Brazil is one of the lowest in Latin America at 73.5 years (2011) and the country's average years of schooling (for individuals older than 25 years), 7.2 years of study, is the same as the figure found in countries such as Zimbabwe (173<sup>rd</sup> in the HDI ranking) and Surinam (104th). Brazil's GNI (Gross National Income) per capita of \$US 10.162 is lower than that found in other Latin American countries such as Chile (\$US 13.329), Argentina (\$US 14.527) and Uruguay (\$US 13.242). Brazil's economic growth performance has been stronger than its education and health performance, despite the considerable progress achieved in poverty and inequality reduction.

Important quality challenges lie ahead in tackling multidimensional poverty in Brazil<sup>5</sup>. A brief examination of a few educational and health statistics, as can be seen in the HDI, reveals that much needs to be done. It is important to note that the role the current economic crisis has played in removing degrees of freedom from Brazilian social policy is quite limited, at least so far. Structural policies, initially shaped by the 1988 Brazilian Constitution, followed by a strong movement of institutionalisation of social policies and good domestic economic conditions, and by pro-active countercyclical economic policies in the late 2000s, have been responsible for reductions in monetary poverty and inequality throughout the economic crisis. But much still needs to be done to pursue a social justice agenda in the country.

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<sup>5</sup> Brazil's Multidimensional Poverty Index is too low to be significant for policy making. Its headcount is 2.7% (see HDR 2011) and it is lower than the Brazilian national extreme poverty line of 8.5%. For this reason it was not discussed here. It seems to reflect a poverty structure more appropriate to low human development countries.

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ISPI  
Palazzo Clerici  
Via Clerici, 5  
I - 20121 Milano  
[www.ispionline.it](http://www.ispionline.it)