

“Brazil has long been one of the most unequal countries in the world. In 1989, its Gini coefficient stood at 0.636, the second-worst in the world, ahead only of Sierra Leone. Over the past 15 years, however, the country has made impressive strides toward greater equality. Among the



factors behind this success have been public programs aimed at eliminating extreme poverty and allowing the poor to afford middle-class patterns of consumption. After enduring tough economic times, with inflation skyrocketing to unimaginable levels in the 1990s, Brazil was finally able to have a valued currency—the *real*—in 1994, thus paving the way for

development and for policies that would bring a vast number of people out of poverty in the first decade of the 2000s. Despite the recent and substantial decline in inequality, however, Brazil still has a long way to go in expanding equal opportunity and promoting democratic inclusion. ”

—Maria Clara R. M. do Prado, June 26, 2014

More Equality, More Democracy: The Case of Brazil

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June 26, 2014

The views expressed in this presentation represent the opinions and analysis of the speaker and do not necessarily reflect those of the National Endowment for Democracy or its staff.

Inclusive Democracy in Process: A Sustainable Change?

Political transition: gradual and secure



Curb of hyperinflation



Distributive policies



Enlargement of the middle class



Engagement of the society



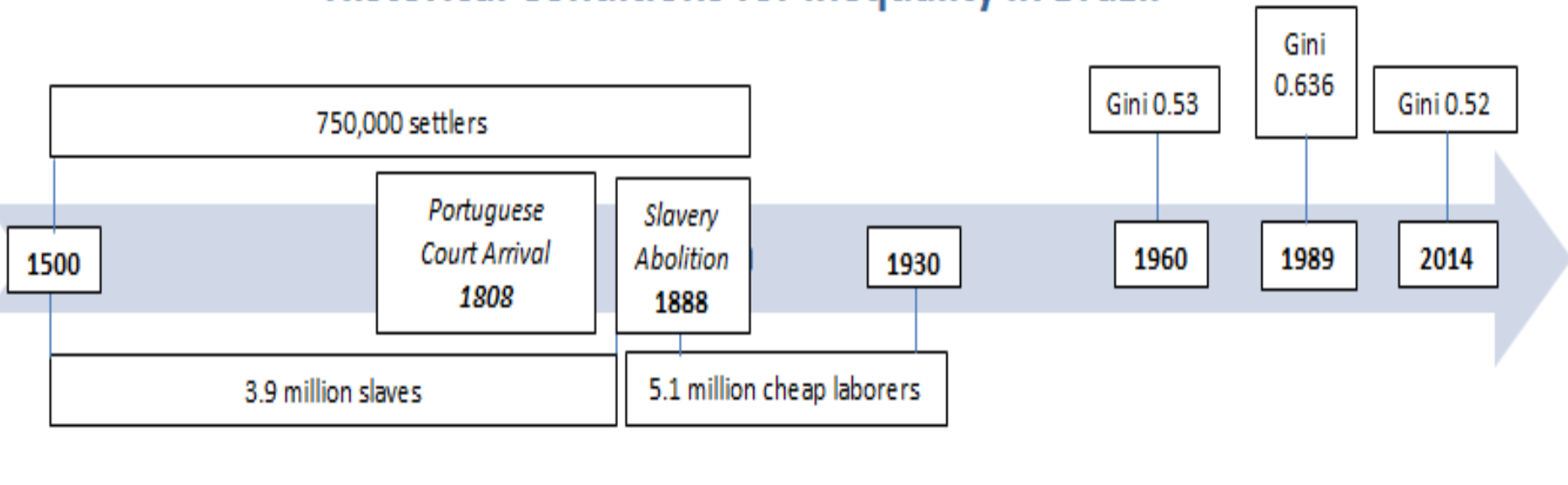
A new social contract?

Presentation Overview

1. Historical Background
2. Democratic Developments
3. Distributive Developments
4. Increasing Equality
5. Persisting Wealth Concentration
6. The Awakening of Society

Historical Background

Historical Conditions for Inequality in Brazil



Historical Background

Short Windows of Democracy in Brazil

Republic

1500 1808 1822 1889 1930 1945 1951 1956 1964 1985 2014

Portuguese
colony

Portuguese
Kingdom

Empire

Oligarchy

Dictatorship

Democracy
6 years

Populism

Democracy
8 years

Military
Dictatorship

Democracy
29 years

Democratic Developments

“Diretas Já” - 1984



Democratic Developments

Citizens' Constitution - 1988

Fundamental objectives:

- I. to build a free, just and solidary society;
- II. to guarantee national development;
- III. to eradicate poverty and substandard living conditions and to reduce social and regional inequalities;
- IV. to promote the well-being of all, without prejudice as to origin, race, sex, color, age and any other forms of discrimination.

Democratic Developments

The Impeachment - 1992



Democratic Developments Lula's Inauguration - 2003



Democratic Developments

The “Mensalão” – 2012/2013



Supreme Court (STF) condemns the leadership of the ruling party (PT) to several years in prison



Democratic Developments

The march of June 2013



Distributive Developments

Substantial Improvements

- **Drastic decrease in population growth rate:**
From 1.64 in 1990 to 0.8% in 2012
Fertility rate down to 1.86 children per woman
- **Inflation tackled by the Real Plan in 1994:**
Poverty fell by 10% to 15%
- **Schooling:**
All children aged 6 - 15 enrolled in primary school
80% aged 16-18 enrolled in secondary school

Distributive Developments

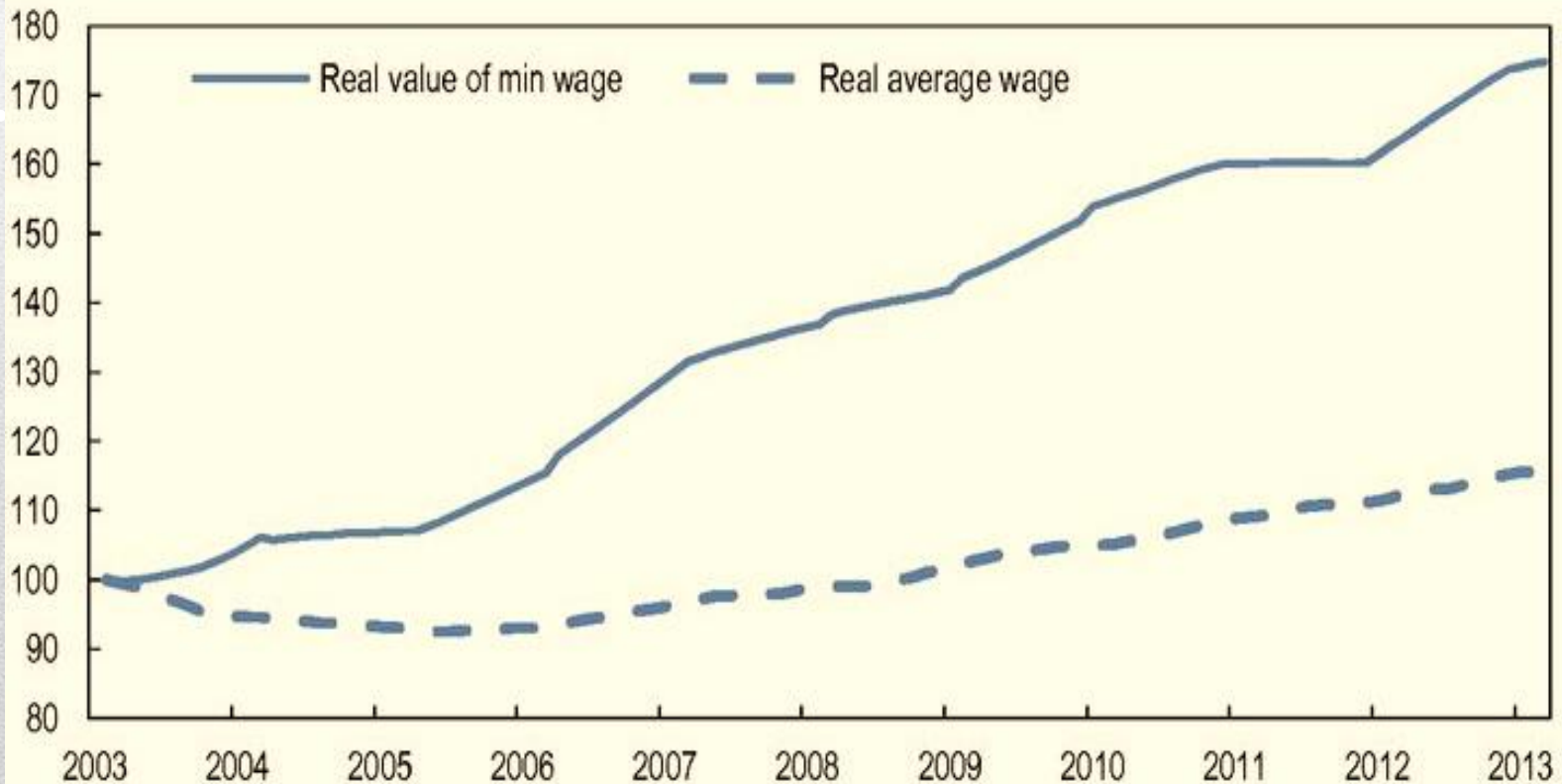
Cash Transfers to the Poor

- **Bolsa Família:** over 13.7 million households in 2012
50 million Brazilians - Cost 0.5% of GDP
- **Benefício de Prestação Continuada:** non-contributory pension benefit – over 65 years old and the disabled
Fiscal impact: 0.5% of GDP
- **Contributory Pension Benefit:** public security system as a redistributive program in the private sector
Exception: public servants

Distributive Developments

Minimum Wage

Increase of the Minimum Wage and the Average Wage
(in real terms, after inflation deduction, of 12-mths moving averages) Feb 2003 = 100



Source: IBGE / OECD

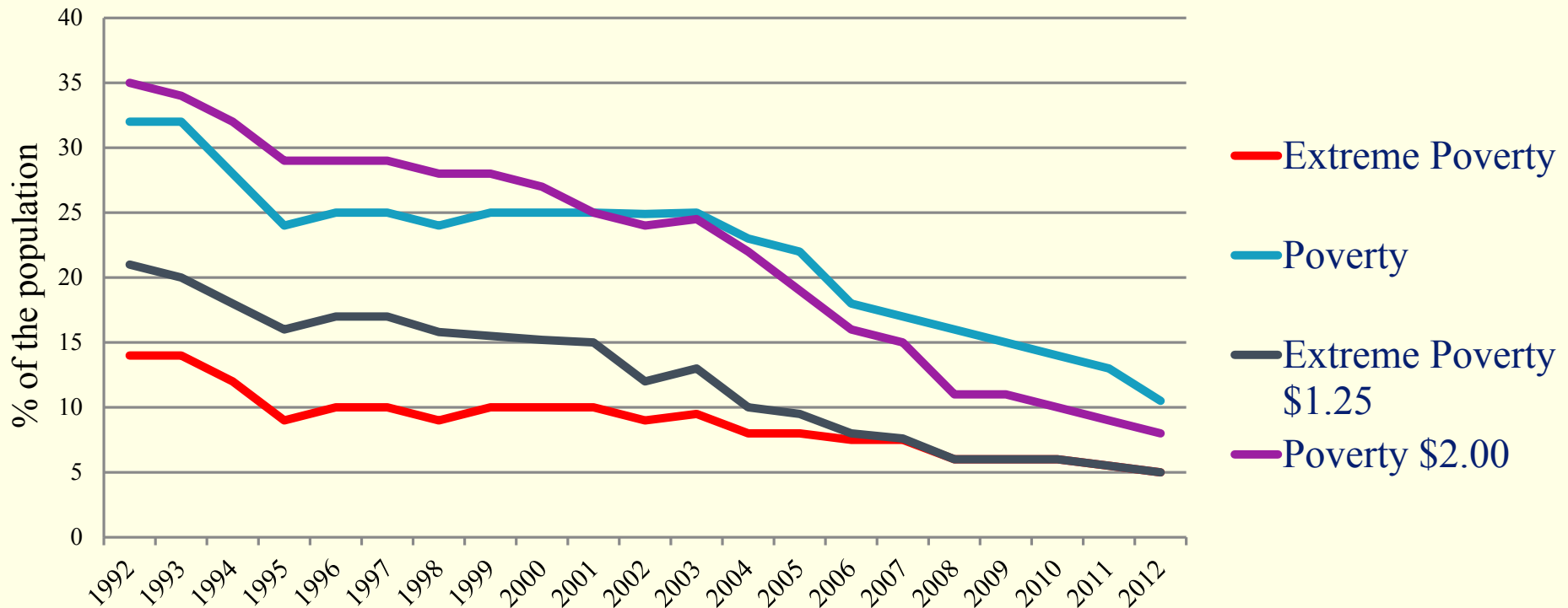
Distributive Developments

Role of Economic Growth

- Unemployment has remained low in Brazil despite the decrease in GDP since 2011
- Some factors explain the low numbers:
 - 1) the impact of the 7.5% GDP growth in 2010
 - 2) the reduction in the population growth rate
 - 3) less young people looking for jobs
- Formal employment has risen from 44.6% in 2002 to 57% in 2012

Increasing Equality Less Poverty

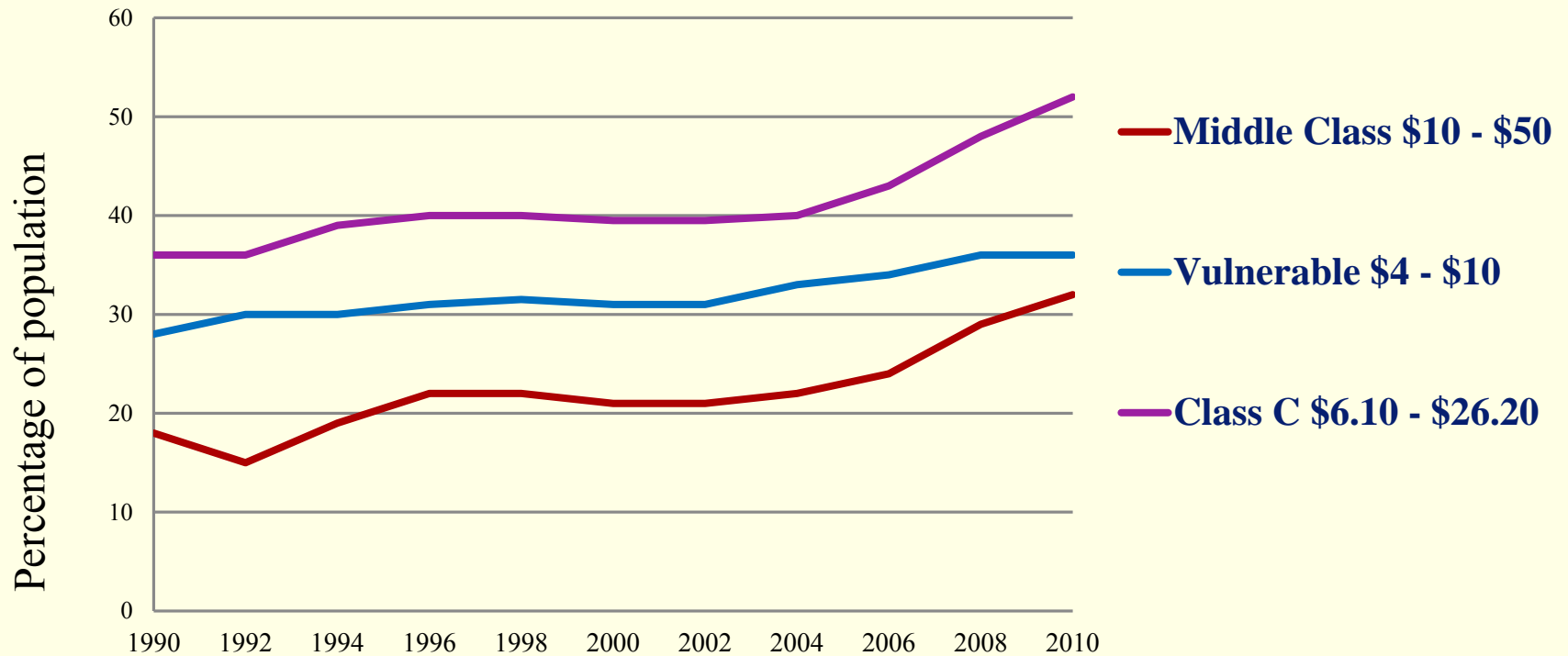
Poverty Decrease in Brazil (1992-2012): Alternative Measurements



Increasing Equality

The New Middle Class

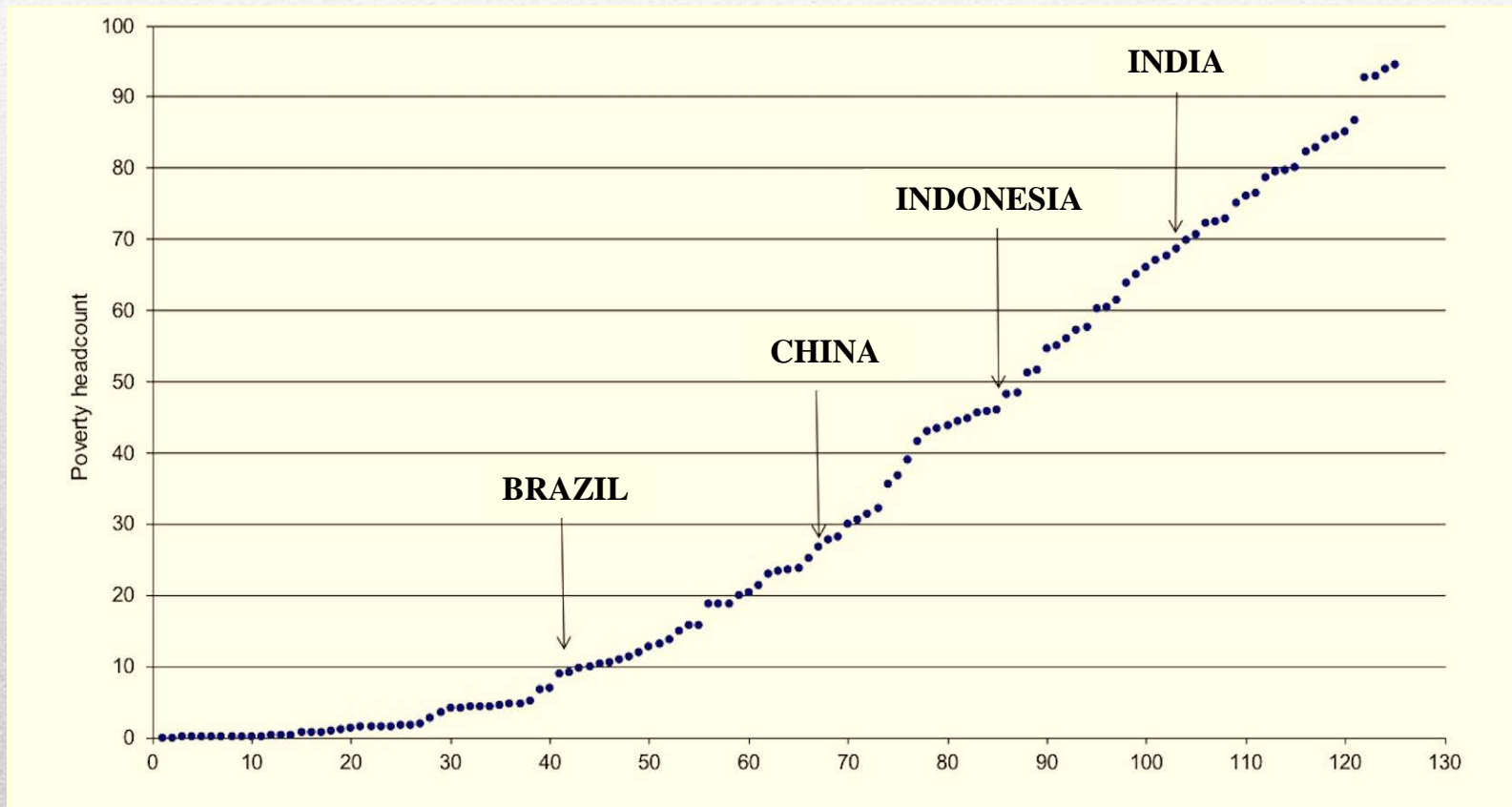
The Brazilian Middle Class (1990-2009): Alternative Measurements



Source: World Bank: "The Rising of Latin America and Caribbean Middle Class", 2012; SEDLAC and World Development Indicators (WDI); Classes C and D definition by Neri, Marcelo, 2010. Note: Poverty lines and incomes are expressed in 2005 US\$ PPP per day.

Increasing Equality Drastic Poverty Reduction

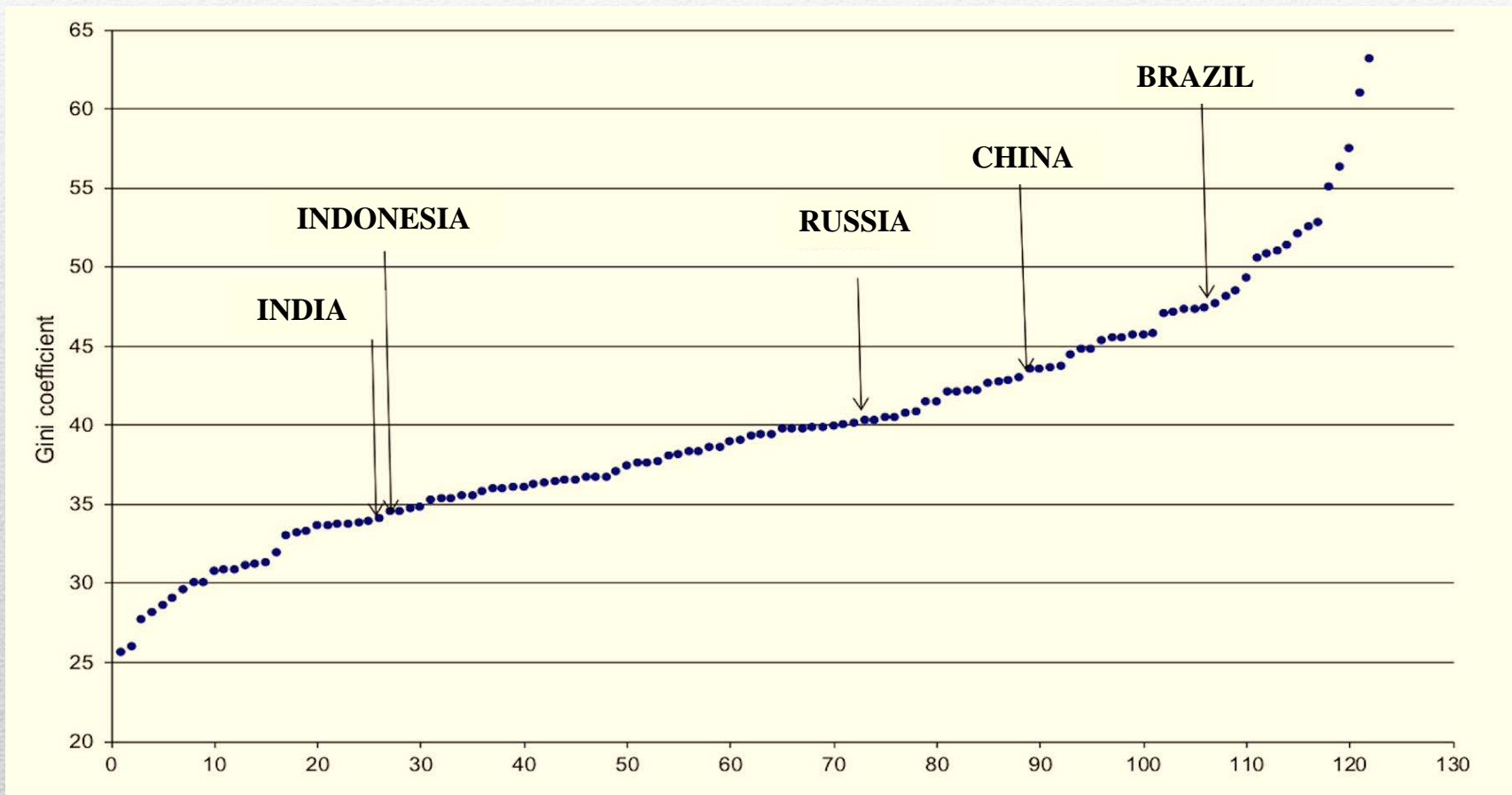
Poverty headcount ratio



CEDLAS – own calculations Alvaredo, Facundo & Gasparini, Leonardo - based on PovcalNet (2013); poverty calculated over consumption / income per capita PPP \$2 a day

Persisting Wealth Concentration High Gini Coefficient

Gini by household consumption per capita



Source: own calculations Alvaredo, Facundo & Gasparini, Leonardo - based on PovcalNet

Persisting Wealth Concentration

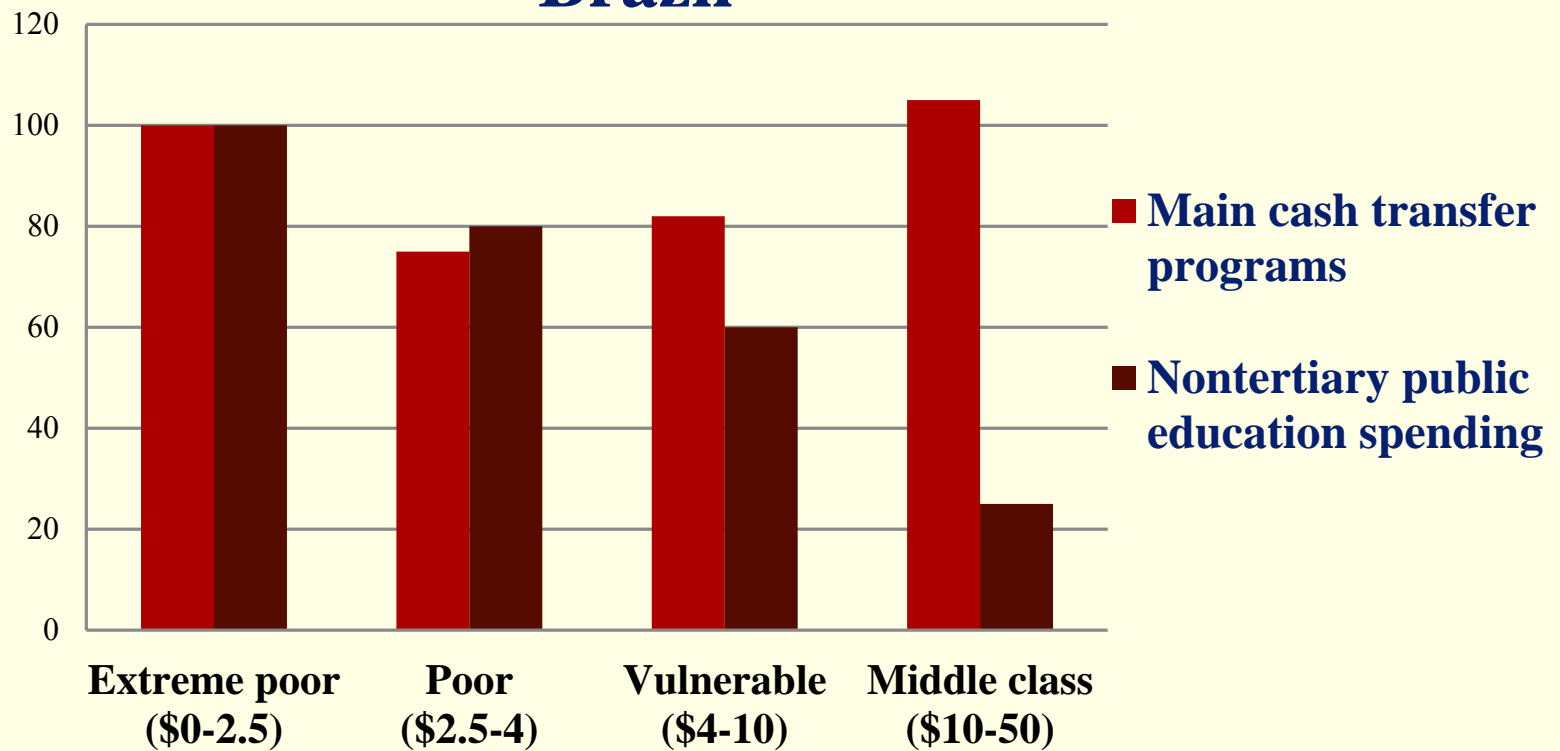
The “Rent Seeking” of the Rich

- Policies that benefit the upper classes:
- Free tertiary education – best universities are public
- Special retirement system for public servants
- Special long term credit conditions for big companies
- Regressive Taxation – the poor pay relatively more taxes (indirect) than the rich

Persisting Wealth Concentration

Public Social Transfers

Class Incidence of Social Transfers in Brazil



Source: World Bank: "The Rising of Latin America and Caribbean Middle Class", 2012; and Lustig, Nora (2011). Income intervals are defined in dollar PPP per capita, per day. Main cash transfer programs include "Bolsa Família", Benefício de Prestação Continuada," unemployment benefits, special circumstances pensions and other social programs.

The Awakening of Society

Future Generations

- **Mobility within the same generation**
 - Income growth changed 150% since 1990
 - 64% of the population climbed from poverty to upper classes
 - **Mobility between generations: Uncertain!**
 - New generations will be more educated and more skilled than their parents. Aspirations tend to be higher.
 - Dependent factors: opportunities for jobs and entrepreneurship
- Main conditions:**
- 1) Better quality of education
 - 2) Higher economic growth
 - 3) Basic structural reforms

The Awakening of Society

Implications of distribution

- Income distribution has not only economic consequences but significant social and political implications
- More schooling and use of internet → more information
- More income and opportunities → higher expectations
- More social consciousness → more political awareness
- Social mobilization → unbalances current social contract

The Awakening of Society

Struggle or Accommodation?

- Brazilian democracy evolved to a point that requires inclusiveness and a new social contract
- Changes in the prevailing fragmented social contract imply conflict of interests
 - ➔ Will there be struggle or accommodation?
 - * Struggle may lead to populism
 - * Accommodation may lead to apathy

The Awakening of Society

Conditions for a new contract

A new social contract can come out of a smooth transition, but some conditions have to be addressed:

- ➔ Dependent factors:
 - * Willingness of the upper classes to give up privileges
 - * **Politicians' responsiveness to the people's demands**
 - * Continuing strength of civil society

- ➔ Requirements:
 - * What forces will be involved?
 - * How to negotiate the new social contract?
 - * What will be the bargain?

**“Sorry for the trouble.
We are changing Brazil.”**

