Poverty and the New Rural Middle Class

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1. Introduction

“If China is the world’s powerhouse, Brazil is its farm. Brazilian agriculture is flourishing and bears fruit.”

If China is the world’s powerhouse, Brazil is its farm. Brazilian agriculture is flourishing and bearing fruit. Brazil’s contributions to agriculture range from Josué de Castro’s book “The Geography of Hunger” in the 1940s to the recent election of José Graziano as Director General for the Food and Agriculture Organization (FAO), an agency linked to the United Nations.

Luis Inácio Lula da Silva, in his victory address in 2002, spoke of the importance of pursuing Zero Hunger (Fome Zero) as opposed to Zero Tolerance, the latter a reference to policing policy in New York City. In 2007, during a rise in food prices that would have benefitted Brazil macroeconomically but hurt poor people everywhere, Brazil readjusted its Family Stipend (Bolsa Família), to help offset losses in purchasing power at the base of distribution.

Dilma Rousseff has continued this approach by selecting the eradication of misery as her main priority. (In this case, the miserable are defined as those who cannot meet their basic caloric needs). The government’s motto is: “A wealthy country is a country without poverty” and Brazil Without Misery is her platform (Brasil Sem Miséria). Therefore, from the viewpoint of food production, and in terms of social goals, poverty now occupies a core position in the agenda of Brazilian public policies. In this paper, I will discuss the trajectory between the old poverty and the new rural middle class, its advances, drawbacks and challenges based on a project for the Inter-American Institute for Cooperation in Agriculture (IICA), the results of which will be published in the form of a book.
2. Poverty

“The proportion of the extremely poor is 47% according to the Census but only 31% in the PNAD (National Sampling Survey Program).”

The MDS and the IBGE (Brazilian Institute for Geography and Statistics) have just launched a study, based on the 2010 Census, indicating that approximately 8.5% of the population lives below the poverty line, with about 16 million living in dire poverty. This figure is 58% higher than indicated by the 2009 PNAD, which showed the figure to be 5.38%.[1] As this new survey reveals, poverty dropped 16.2% between 2009 and 2010, increasing this discrepancy even further. In 2001 our “Map to End Hunger” already showed that, according to the Census, the FGV poverty rate was 14% greater than in the PNAD.

This has a direct impact on the measurements, not only of the level, but of the composition and importance of extreme rural poverty compared to urban poverty. The proportion of the extremely poor is 47% according to the Census but only 31% in the PNAD. In my opinion, rural poverty is overestimated in the Census. This is the issue that will be discussed here.

We calculated how much additional income the poor or miserable must receive to fulfill their basic needs, based on the PNAD and the FGV lines of R$ 151 reais a month, adjusted for regional differences and cost of living. In rural settings in 2009, we calculated the total cost to eradicate misery to total approximately R$500 million per month, equivalent to R$19.43 per person (a difference of R$ 10 reais compared to the Brazilian average of R$ 9.33). As 32% of the population lives below the poverty line, the cost per non-poor person is evidently greater, reaching R$28.53 in rural areas (R$ 11.02 for the total). On average, a poor rural dweller would receive R$60.91 every month. This exercise should not be understood as a defense or justification of specific policies, but instead as a reference point for measuring the opportunity cost of adopting poorly focused policies. The information is useful for targeting future actions and for arranging sources of funding. But how has poverty evolved in rural areas?

In 1992, despite the fact that it was home to only 18% of the total population (at that time, 145 million), rural settings already accounted for 28% of all poor Brazilians. For every ten people living in rural areas, six found themselves living below the poverty line. Moving forward in time, we find a completely different situation. With the
urbanization process now underway, the country has decreased the rate of rural poverty by approximately 50%.

We have used controls to compare populations with similar characteristics (such as gender and schooling) in order to isolate the role of the field/cities binomial. It is important to note that the accrued and absolute decreases in poverty followed a similar pattern in both the six-year period between 2003 and 2009 and in the 11-year period between 1992 and 2003, with a 63% lower incidence of poverty in 2009 than in 1992. The drop in the relative risk of poverty in rural area compared to metropolitan areas was greater during the first period, at 47%, which includes the period of the metropolitan crisis, than it was during the second period, when it dropped to 3%. In the period after 1992, when the Constitution was still fairly new and its effects were just beginning to be felt, the primary benefits went to rural areas, while in the period after 2003 the benefits were more evenly distributed among poor people everywhere, in rural, urban and metropolitan areas alike.

3. Midfield

“In its trajectory from the old poverty, the new middle class seen gains of 15 points more in rural areas.”

Between 2003 and 2009, per capita income growth in the PNAD and GDP rose considerably. When we compare the Rural PNAD and the GDP, this difference doubles to 25.4 percentage points. When we compare the Rural PNAD and the GDP in Cattle Raising and Agriculture, the difference is even sharper, at 36 percentage points. The growth in income less associated to agri-business plus the expansion of public transfers to the field (Rural Retirement Benefits, BPC, Family Stipend-Bolsa Familia, etc.).[MD1] In 2009 the Gini inequality index was 0.489 in rural areas, 10.3% lower than in the rest of the country. The Gini index decreased by 8.3% in rural areas between 2003 and 2009, compared to a 6.5% decrease during the same period in the rest of the country.

When we measure accrued gains in income by tenths of the rural population between 2003 and 2009, there are losses for only the bottom 20% compared to the rest of the country, with gains in the other income segments. The greatest relative growth
was observed in the means of distribution, with an accrued growth of 61.07%. Greater economic gains were seen in the middle segments.

As a consequence of this, the new middle class accounted for 20.6% of the rural population in 2003, rose to 35.4% in 2009, and, according to projections, will make up half of the population in 2014, the same ratio as for the rest of the country.

The accrued growth of 71.8%, from 2003 to 2009 is equivalent to having 3.7 million Brazilians becoming part of the C bracket (9.1 million people in 2009). The proportion of people in this group in rural areas was equivalent to 55% of the one verified for the entire country in 2003, and reached 70% in 2009.

We have projected scenarios for changes to the composition of the various rural economic classes through the end of 2014. If the trajectory of the last six years is repeated -- that is, if the per capita income in rural areas grows 6.14% annually over the next five years, and if the changes in distribution are repeated --, the new middle class, known as the C bracket, will correspond to approximately half of the population living in rural areas in 2014. Under this scenario, the new Brazilian middle class that we have seen in the country overall, as of 2009, would be replicated in the rural milieu by 2014.

In the following graph, we present a visual summary of the change in composition of the different economic brackets in rural areas between 1992 and 2014, adjusted by the change in inequality referring to each state or Federal Unit (FU). These graphs are accompanied by a darker area that indicates the specific effect of maintaining inequality; that is, it is a pure growth scenario with a constant relative distribution among people. Note that the frontier between the A and B brackets and the C bracket is virtually unaffected by the trajectory foreseen for inequality. On the other hand, fewer people are expected to ascend to the D class; this would retain more people, although it would receive fewer people than the E class.
Some authors define the middle class as being made up of people who have a well-defined path for increased prosperity. Based on this definition, we used global indices from the Gallup World Poll, which surveys more than 132 countries. A world record in future happiness in 2006 compared to 2011, surpassing Denmark, the world leader in present-day happiness and 6th in the future happiness ranking.[MD3]

If we look only at the rural areas in the nations surveyed, Brazil’s projected happiness in 2011 was 8.6, compared to 8.53 for rural areas in Denmark, the current world leader. Rural Brazil is in the third place in the world ranking when isolated to rural areas. (Colombia occupies the top spot.) Zimbabwe has the lowest happiness rating, followed, somewhat surprisingly, by Paraguay and Ecuador. That is, the rural populations of these middle income countries in South America do not fall in the middle of the happiness rankings but rather at the extremes of unhappiness.
4. Income Sources

“The share of work in income has become less important in the rural areas, where it is now 66.5%, than in the rest of the country, where it averages 76%. This is down from 81%, in both rural areas and in Brazil overall, in 1992.”

We now turn our focus to the changes that have made the sustainability and growth of income levels possible. Initially, we investigated the behavior of different income components for families living in rural areas. The analysis carried out was not only for the rural population as a whole but has been broken down by economic class. Between 2003 and 2009, the average per capita income for rural Brazilians grew by 6.1% per year, in real terms (i.e. discounting inflation and population growth), from R$212.58 to R$303.30. (The national average increase during this same period was 4.72%).

Entitlements from social programs were the source of income that enjoyed the greatest growth in rural areas (21.4% compared to the national average of 12.9%), led by the creation of the Programa Bolsa Família (Family Stipend Program) in 2003 and the expansion of similar programs. The process of aging of the population and the effects of readjustment in the minimum wage, which grew by more than 45% during this period, exerted pressure on the base value of such benefits. In rural areas, the base value of income from social security grew by 5.58%, reflecting the fact that many retired Brazilians are now included in this segment.

Work income enjoyed an annual average increase of 4.5%, below that of other income sources and below what we observe for Brazil as a whole (4.6% per year), showing that it has become more difficult to maintain living conditions beyond the official income transfers offered. Income from work became less important in rural areas than in the rest of the country, corresponding to 66.5% of the average income received by a Brazilian citizen living in rural areas (compared to 76% for the national average). Despite the high share in total income, work accounted for only 52.1% of the growth recorded during this period. For the country overall, the contribution of work now surpasses what is recorded in rural areas by approximately 24 percentage points, and has now reached the level of 76.0%.
Income from work constituted 81.3% of average per capita household income in rural areas in 1992, in line with similar levels recorded for the country as a whole. It reached its peak in 1996, after which it began a long decline that continues today. As a counterpoint, public transfers acquired greater relative importance during this period, as a consequence of the previously mentioned programs that were created for income transfers and of the increase of social security benefits.

5. Rural Work

“Employment levels have declined as the quality of the old/new rural life in Brazil increases.”

Above and beyond what we have seen, there has also been a reduction in the share of work in rural income sources. Turning to the labor market in rural areas, we see that in 2009, 19 million people, or 74.2% of the rural population, were employed. In 2003, there were 20.1 million rural workers, corresponding to 77.4% of the rural population.
This drop in employment rates is the inverse of what was happening in Brazil as a whole at this time, during which employment rates increased from 64.7% to 67.2%.

The initial explanation for the discrepancy observed lies in the differences in GDP growth in rural areas compared with other parts of Brazil. Cattle raising and agriculture grew by 40.4%, in real per capita terms between 1995 to 2010 compared to 29.1% GDP growth for the country as a whole. Between 2003 and 2009, GDP growth in rural areas totaled only 6.6%, compared to 17.3% growth for Brazil as a whole, which means that the agricultural economy grew at a slower rate during this period than the economy as a whole.

The drop in employment rates in rural areas is at odds with trends for cattle raising and agricultural GDP, and even less consistent with GNP trends. The mismatch has been even more pronounced during national economic booms, as was the case immediately following the implementation of the Real Plan and during the post-2004 economic recovery. There is a contra-cyclic behavior in rural employment. One possibility is that there was a drop in employment in agriculture as a result of the expansion of opportunities in other sectors with greater job security or as a result of public transfers.

The decrease in market share for rural labor (by -0.53% per annum) and employment rates among the economically active population have remained stable. That is, there has been a significant contraction in the work supply in rural areas, while both these figures have increased for the country as a whole.

**Quality** – Despite the effects of the contraction in employment mentioned above, individual income has been growing slightly more in rural areas, by 4.3% compared to 3.9% for all of Brazil, consistent with gains in the perceived quality of jobs and job security. There has also been an increase in labor productivity in rural areas, measured by hourly wages, which has been growing at a rate 3.4% a year, consistent with national rates. The working day has also gotten shorter in rural areas.

The core piece that is missing in the analysis is income from public transfers, which has been growing at a higher rate in rural areas. If we look at the population between the ages of 15 to 65, we see that income from social programs and from retirement benefits has dropped by 0.24% for the country as a whole but has increased by 0.9% annually in rural areas, which could lead to an increase in reserve salaries.

It is necessary to note that the current employment rate in rural areas continues to be higher across all age brackets, with differences from national averages becoming
greater the older the population segment. Among people who are over 60 years of age, the employment rate is 67.1% in rural areas compared to 44.1% nationally. There was a greater drop in the share of the labor market of children under the age of 15 years and for people aged 60 and older. At these two extremes, working income has grown by 3.7% and 6.7% respectively, compared to 1.49% for all rural age groups.

Looking at the aggregate figures, the share of income from social programs and rural retirement benefits increased from 27.3% to 33.5% between 2003 and 2009, while it remains stable at the national level at around 23.5%. This share was approximately 18% in both rural areas and nationally in 1992.

Turning our attention to the changing quality of labor relations between 2003 and 2009, we observe the following improvements: the share of individual jobs lasting more than five years increased from 13.2% to 15.7%, indicating that jobs with shorter durations were those that experienced the sharpest decline. The proportion that involved public social security contributions increased from 16.8% to 25.5%. Jobs in establishments with 11 or more workers increased from 4.35% to 6.86%. The direction followed by quality of labor seems to be more like the Ford model, with a formal increase in labor relations. The proportion of those employed increased from 9.2% to 13%.

Employment – The rural modules in the PNAD make it possible to visualize how precarious work and entrepreneurship were between the period between 2003 to 2009. Let us begin with the latter: the proportion of those employed who lived on the same land where they worked was 48.5% in the final year, a decline from the 54.8% measured in 2003. The proportion of rural area dwellers that depended on some type of subsistence activity (cultivation, fishing or animal breeding) to feed their families decreased from 6.1% in 2003 to 5.1% in 2009.

In 2003, around 17.2% of those employed received from their employers a specific area of land for their own production; this increased to 15.33% in 2009. The percentage of employers who had some sort of partnership arrangement with their employers fell to half in 2009, 3.09% of what was observed in 2009. The unionization rate went from 21.9% to 23.8% between 2003 and 2009, down from 19.3% in 2001.

All these indicators point to the increased professionalization of rural employment. But before claiming victory for agri-business or for family agriculture, it is important to look at the evolution of small businesses during that period.

Entrepreneurs – The ratio of those working for themselves and of employers drops from 23.3% to 19.9%, pushed down by those working autonomously. [MD4] In
2009, the average area included in the purchase of an enterprise by autonomous workers was 11.3 thousand m². This is the lowest average area reported since 2002. The year 2003 was the better, with averages of 12.6 thousand m². That is, those working on their own. [MD5]

The proportion of individual owners [MD6] goes from 64.08% to 70.79% between 2003 and 2009. Other forms of existing relations are partners, tenants, squatters and grantees. Below we quantify the proportion of autonomous workers and employers that had taken on a previous commitment to sell part of their production the previous year. The data points to an increase in this variable, consistent with recent advances in the Brazilian consumer market. In 2003, 26.19% of entrepreneurs had taken on such a commitment, a figure that increased to 32.06% in 2009. Buyers of products are represented as follows: 25.41% are companies, 10.16% are cooperatives, and 0.35% is accounted for by governments. These buyers all showed growth during the period, while others saw their share of buying fall.

A considerable part of household nutrition for these entrepreneurs is obtained from production, but this part of subsistence is dropping. Among entrepreneurs, 19.45% consumed more than half of what they produced in 2002; this dropped to 15% in 2008.

To sum up, the amount of work in rural areas has decreased while the quality of that work [MD7] has improved. The share held by the small subsistence entrepreneur has decreased, but there has been an increase in formal, Ford-type subsistence employment. There has been an increase in salaries and public monetary transfers. These are the main labor transformations in the old/new rural areas of Brazil.

6. Conclusions: New Agenda

“It is necessary to extend the Brazil Test to rural schools, as quality education is the main route to sustainably overcome poverty.”

The average growth of Tupiniquim [MD8] in the past few years is far from remarkable. If we look at the audience: who has sat in the first row, and who has missed out on the show of growing income? Workers who have enjoyed a higher increase in income than people in Brazil overall include those with less schooling, in sectors including domestic services, construction and agriculture.
This trend is in contrast to trends in developed countries and in the other BRIC countries, in which growing inequality is very evident. Brazil was the last country in the Western world to abolish slavery, and is now beginning to free itself from the inheritance of slavery.

The large farm house with its slave quarters is essentially a rural vision. We outline here, based on a project for the Inter-American Institute for Cooperation in Agriculture, a portrait of the biggest recent transformations in the old/new rural life of Brazil. We have included the trajectories of rural income, side by side with those of the country as a whole. We then went on to explore the indicators set forth by the PNAD/IBGE, which make it possible to incorporate details regarding social and labor rural changes.

**New Agenda** – It is now time to “give the market to the poor”, fulfilling what began a few years ago when, by reducing inequality, "we gave the poor to the markets (as consumers)”. Pursuing a market agenda for the poor is beneficial to all as it does not lead to higher fiscal costs, generating improvements in the Pareto curve, where nobody loses and the rural poor win differentiated upgrades as they were farther away from the market than the urban poor. When the markets are extremely incomplete, it is possible to move beyond the dilemma of having to choose between efficiency and equity and come out ahead, by achieving both. Benefits from social programs are particularly important in rural areas, leveraging gains in well-being compared to those contemplated for reasons of equity.

We should treat the poor as empowered actors and not just as recipients of official money transfers and credit in the form of benefits. The program citizen territories [MD9] proposes to do this from a public perspective. Possibilities for action in rural areas, through the interaction of public and private activism, need to be explored further.

Popular productive credit is fundamental to unleash low-income entrepreneurship. Banco do Nordeste, a public federal bank located in a poor area, provides examples of this through its “Agroamigo” program, modeled after a similar program, Crediamigo, which targets urban dwellers. In both programs we have seen work yields increase along with productivity (salary-efficiency) -- in the case of credit agents, we have even observed three-fold increases in salary --, depending of the portfolio’s performance. There is wealth in the midst of poverty, and the state must work together with the private sector to release and expand it. To date, not enough has been done to support
workers from small rural producers by increasing access by the poor to consumer markets.

The launching of an adequate policy for highways and roads in rural areas, where 15% of the Brazilian population lives and where a large part of the agriculture production is produced, should also follow along these lines, bringing producers closer to markets. Projects to expand access to electricity in rural areas, such as Light for Everybody (Luz para Todos), should be prioritized as well.

Education functions as a passport for finding formal work. As the public sector becomes closer to the poor, it can pave the way to access to markets. Despite the costs, it is necessary to extend the evaluation of the Brazil Test (Prova Brasil) to rural schools with fewer than 30 students. In this way, the goals of IDEB education can reach rural areas with full force. Quality education is the primary route for sustainably overcoming rural poverty.
Bibliography:


[1] This figure would be 3.68% through the POF, which is the best data base available as it incorporates non-monetary income (25% of the income of the poor).

[MD1] This sentence makes no sense. (There is no verb!)
[MD2] “of the one” ... what? Meaning not clear.
[MD3] The meaning of this sentence is not clear. There is no verb and I’m not sure what the subject is either. It may be unnecessary (and can be deleted) since this data is elaborated upon in the following paragraph.
[MD4] I don’t understand what this means. What does “of employers” refer to? And what is the difference between “those working for themselves” and “those working autonomously”?
[MD5] ??
[MD6] Again, what are “individual owners?” Are these bosses? Entrepreneurs? People who work alone?
[MD7] Quality of work, from the employer’s point of view? Or quality of jobs, i.e. from the worker’s point of view?
[MD8] Does this refer to growth in the population of this tribe? Or to growth in their incomes or some other measure of living standards?
[MD9] ?? It is not clear what this means or what is the subject of this sentence