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A Crisis Fluke: Brazil's Shrinking Wealth Gap

Mac Margolis
Finding good news in the global financial crisis takes dedication and a microscope, but a small light now shines from an unlikely place at an even more unlikely time. It's one of the givens of development that general economic woe is the enemy of the poor, who are, by definition, society's weakest link. All the more so in a global economic meltdown that has, in a matter of months, erased decades of savings, destroyed jobs, and reversed poverty alleviation across the world. Now Brazil, known for its gnawing poverty, may be challenging this grim rule.

It's not that the last are now first. But the distance between the penthouse and the poorhouse in one of the developing world's most skewed societies has stopped growing and, by optimistic measures, may even be shrinking. Recent numbers from the Brazilian economy show that, thanks to a surprisingly resilient internal market and aggressive government stimulus spending, the poor have fared less miserably in the recession than might have expected and less terribly in Brazil than elsewhere.

A study just out from the government's Institute for Applied Economic Research (IPEA) makes a bolder claim. IPEA reports that the gini coefficient, the official scale that ranks national income gaps on a three-digit index like baseball scores (the bigger the country's gini coefficient, the more unequal), has improved even as the global economy tanks. Since last June, on the eve of the financial crisis, the gini score in the country's main metropolitan regions fell from .544 to .526 today. A trifling, for sure, but in country where *favelas* abut mansions, it's a landmark nonetheless.

So what's behind the rise of the poor? Brasília claims credit for having rescued the economy, and especially the neediest, with a mixed bag of tax breaks, consumer credit from public banks, and generous increases in cash transfers to the poor. But a decade of basic, brick-and-mortar economic reforms also helped, allowing Brazil to sail into the crisis in far better shape than many emerging markets, with a solid banking system, low inflation, and a hawkish monetary policy that allowed the government to prime the economic pumps by aggressively lower lending rates while other countries were practically giving money away. "Brazil had fat to burn," says Marcelo Neri, an economist at the Fundação Getúlio Vargas, a Brazilian business school.

Neri, an expert on social policies, agrees that Brazil has achieved a landmark in poverty busting. Fact is, he says, inequality in Brazil had been plummeting since the mid 1990s, when the country ended hyperinflation (the worst tax, which especially punishes the poor) and began to open its bell jar economy to world trade. The sluggish economy grew, expanding by 6 percent last year to $1.5 trillion. Brazil created 8 million jobs between 2003 and June 2009. A decade of cash transfers to the poor proved a cheap and effective way to help those at the bottom, spending less than half a percent of GDP to aid a quarter of the country's 190 million population. The result: the gap between haves and have-nots has plunged from nearly African levels in the 1980s, bottoming out in July 2008, when Brazil's gini dropped to .0561, the lowest level on record. By contrast, the U.S. gini is around .380, while in China (where everyone is poorer) it's around .470. A few months later, disaster struck. Brazil followed the world into recession and society fell out of kilter. In January, gini spiked again to .577, wiping out two years of progress for the poor.

The good news—and on this both the government and Neri agree—is that the poor are no longer falling behind. "Inequality is not growing," says Neri, "and in a global downturn, that is an excellent result." That may sound like faint praise. But not to the Brazilians. Through most of the last century, this underachieving developing country earned a reputation as one of the most scandalously lopsided societies on earth. Brazil, the story went, was two nations jammed into one: a petite and prospering Belgium surrounded by a sprawling and miserable India. Until late last century, the income gap was an international national disgrace, with the gini score peaking at .625 in 1989.

Just this decade, the country has seen some 27 million rise from poverty to the middle class. The number of those living below the poverty line has plummeted from nearly 30 percent in 2002 to around 19 percent today, slightly higher than it was when the crisis hit.

No one is popping champagne corks. The poor are closer to the rich in Brazil, at least in part, because the wealthy have fallen further. And there are dangers lurking. Instead of typical anti-cyclical spending, Brazil is goosing its economy through generous wage increases, entitlements, and tax incentives, which are nearly impossible to reverse, and which can quickly turn from a tide of stimulus to a sea of public deficit. But for now, at least, Brazil has put the dark gini back in the bottle.