

The Land of Less Contrast

How Brazil reined in inequality.

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Published Nov 28, 2009

From the magazine issue dated Dec 7, 2009

Suddenly, Brazil has become an unlikely benchmark in the global campaign to close the gap between rich and poor. Since 2003, some 21 million Brazilians have climbed out of poverty, turning the historically meager middle-income earners into the country's dominant social class. By 2008 Brazil had already met the United Nations' vaunted Millennium Development Goals of cutting poverty in half by 2015.

It's not just that the poor are better off. That's the case all over the developing world, thanks to two decades of global growth and improved health care. Brazil stands out because its poor are rising faster than any other social class. Between 2003 and 2008, the top 10 percent of Brazilians got 11 percent richer, while the bottom tenth saw their earnings jump 72 percent. Inequality has dropped 5.5 percent since 2003.

More remarkably, social mobility has not been derailed by the world economic crisis. There are fewer poor and indigent Brazilians today than there were 18 months ago, when the crisis blew up. The nation's Gini coefficient—the calculation economists use to measure inequality—is now .580, the same historic low registered in June 2008, before the recession hit. That's not great. (The closer the Gini is to 1.0, the greater a society's inequality.) But it does make Brazil an exception, even among the hottest economies in the developing world. Though China and India are growing faster, they are becoming more unequal. The result is that experts are starting to look to Brazil as a model in the war on poverty.



Brazil's gains date back to a series of smart moves that began in the early 1990s. An aggressive school-enrollment drive put 97 percent of children out of the workplace and back into the classroom. Now they are reaping the rewards in higher pay and better jobs. In 1994 the political elite scrapped decades of fix-it economics and unbridled spending that gutted growth and kept prices spiraling. This paved the way for an era of reforms, such as privatization, reductions in trade barriers, and fiscal prudence.

Just as important, the political left came around. When he became president in 2003, Luiz Inácio Lula da Silva, a firebrand union leader from the leftist Workers Party, was no friend to capitalism. But he vowed not to tamper with the free-market reforms he inherited and that most Brazilians applauded. Paradoxically, these were precisely the policies that paved the way for the initiatives he had always dreamed of: a direct

helping hand from the state to the neediest. Keeping inflation low and government spending in check helped bring down interest rates and encouraged banks to spread credit to even low-income consumers. It also allowed Lula to expand the role of the state, making generous hikes for minimum-wage earners and pensioners, and massive cash handouts for the poor.

He also launched Bolsa Família, expanding an existing aid program in which the state hands out a small monthly allowance—say, \$10 to \$70—to families who keep their children in the classroom and pay regular visits to health clinics. The idea is not new; in 1968 Milton Friedman called for a "negative income tax" for the poor on the argument that individuals can use the money better than governments can. That idea was first applied in Chile and then Mexico, but it was Brazil, beginning in the late '90s, that turned it into a massive institution that now reaches 55 million people.

Bolsa Família has its critics. The hard left pillories it as mollifying the poor with scraps. The right blasts it for pumping up the nanny state and encouraging people to stay on the dole. (A quarter of Brazilians now earn stipends, but only a handful of those have graduated to the job market.) But at a minimal cost, these programs have proved to be an effective way to help the very poor. Brazil spends less than half of 1 percent of its \$1.6 trillion GDP to aid a quarter of its 193 million people. So clear are the benefits that copycats are spreading. The World Bank figures that some 150 million to 200 million poor are now receiving cash transfers in countries like socialist Nicaragua, centrist Colombia, and even the United States, where New York City's billionaire Mayor Mike Bloomberg is now seeing the benefits of a program that was institutionalized in Brazil by a fellow who never much cared for the free market.

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