**Brazil: Boom, Brics and Bigs**

Brazil is booming. In the first quarter of 2010 per capita GDP growth reached 8% compared to the first quarter of 2009, or some 10,6% over the last quarter of 2009. Although gaining momentum probably due to upcoming elections, the Brazilian economy has been expanding nicely since the end of the 2003 recession. From 2003 to 2008, per capita GDP growth rate averaged 3.8% per year but it was surpassed by 1,5 percentage points per year by income directly calculated from national household surveys, the perspective pursued here. In China and India occurred the opposite.

Income inequality in Brazil has been falling steadily since 2001. Between 2003 and 2008 per capita incomes of the 10% richest grew at 3.9% per year while the incomes of the poorest 10% grew at a remarkable 9.6% per year. The size of the Brazilian pie is growing faster while providing larger slices for the poor. Brazil is about to reach its lowest income inequality since record keeping started in 1960. To be sure, Brazilian inequality remains among the top ten in the world, and would take 30 years at the current rate of improvement to reach US levels which means that there are sizeable pro-poor growth reserves that just started to be explored here.

Due to the combination of high growth with falling inequality in the 2003-08 period, the number of Brazilians living in poverty fell 43%, with 19 million people leaving poverty and another 32 million joining the ranks of the so-called New Middle Class. If we extrapolate these growth and inequality trends until 2014 period, poverty will likely fall another 50.3%, reaching UN first MDG five times faster than expected.  Additional 14,5 million poor Brazilians would escape poverty and 36 million gain entry into the new middle class. Overall, this means that in the 11 years preceding the 2014 Brazilian World Cup more than a full United Kingdom population would be incorporated into the ranks of the New Middle Class.

But how did Brazil fare in the immediate post international crisis period? Household data on family earnings for the six main Brazilian metropolitan cities show that in January 2009, the crisis hit Brazilian purses hard, causing a 6,8% increase in poverty in this one month alone. However, since February 2009, Brazil has shaken off the crisis and recovered its pre-crisis growth pace. If we go beyond the last GDP figure available, Brazil is now surpassing its previous golden period: in the 12 month period ended in April 2010, poverty fell 10% and the new middle class grew 4.8%.

How sustainable are recent inclusive growth patterns? First, robust growth of the formal employment sector, doubling since 2004 is the main symbol of the emergence of the Brazilian middle class. Brazil is currently breaking month after month its previous highest record despite the absence of any meaningful reform by the government. A conservative forecast for 2010 is two million new formal jobs which given the abnormally high costs of hiring and firing workers in Brazil legislation, suggest rather positive entrepreneurial expectations. Similarly, trends in the level and inequality of years of schooling indicate continued improvement going forward. Increases in the year of schooling in the 2003-08 period account for 58,7% of mean income among the poorest 20%. More generally, using the metric of income equations to construct structural indicators on consumption (durables, housing, public services etc) and production potential (physical assets such as CITs, education, quality of jobs etc) reveal that the producer side is growing twice as faster than the consumer side. So it is not that Brazilians are going mostly to shop using credit but that those who went more to school are getting now formal jobs.

Brazilian growth rates still lag behind those of other BRIC countries, especially China. However, Brazilian quality of growth is arguably better than China in several respects: better treatment of the environment and of labor coupled with rising equality. Brazil is a democracy that has learned the hard way how difficult it is to promote sound policy within the messy workings of our system. Brazil still faces many obstacles, including a weak education system, low rates of savings, and a tangle of regulatory impediments. But for future growth prospects what matters is not the absolute level of these factors, but how they evolve over time. Brazil can advance vertically if picks the right tracks towards its frontiers of possibilities.

Every four years Brazil holds presidential elections just after the World Cup. So now is the time to pick players, politicians and policies. For most of us, Brazil leads what I call here the BIGs, meaning the G3 of world football, the group of countries who won most World Cups: Brazil, Italy and Germany in that order. My favorite team of policies is: Goal: International Reserves; Defense: Inflation targets; Flexible Exchange rates; Financial Regulation; Fiscal Responsibility. Mid-Field: Education Targets; Poor Producers Access to Markets; Land and Agriculture Technology; Other Natural Resources. Attack: Bolsa Familia; the New Middle Class, our Pelé. After decades of instability, beating our biggest rival Argentina in the game of hyperinflation, Brazil learned that macroeconomic policy is defense and that social policy is key to reach society ultimate goals, if they are connected by a mid-field of sound programs and resources. Historically, Brazilian main problems were of a collective nature such as inflation, informality and inequality which are not in anymore. If Brazil only combines its natural talent with team spirit, its economic and social achievements will mirror its football glory.

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**Eye:**

***Brazil may not lead the BRICs but it leads the BIGs, the G3 of world football, the group of countries who won most World Cups: Brazil, Italy and Germany in that order.***

***\*OBS:Jonathan I suggest to make available as background material in a single web-page I can prepare it in one hour:***

***Text***

[http://www3.fgv.br/ibrecps/c2010/C2010\_SUMARIO\_5.1\_ENG\_sec.pdf](https://mail.fgv.br/exchweb/bin/redir.asp?URL=http://www3.fgv.br/ibrecps/c2010/C2010_SUMARIO_5.1_ENG_sec.pdf)

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