A Fairer Deal

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Brazil shrinks the wealth gap

by Marcelo Côrtes Neri

Long known and criticized for its world beating gap between rich and poor, Brazil has seen income inequality decline to record levels in recent years. This is the mirror opposite of the picture in almost every other country in the world where income inequality spiked before the global economic crisis, receded briefly during the downtown, and now is on the rise again. This is the case in China and India, where simultaneous economic booms lifted the poor but helped the rich even more, widening social inequality. It was also the story of Brazil during the 1960s.

On a global scale, the story line is somewhat different. Thanks to rapid economic growth in China and India - which together are home to half the world's poor - the gap between have and have-not nations has fallen by unprecedented proportions over the last century. But before taking on these parallels and paradoxes, let's look at some underlying concepts.

First, a word on methodology. Many measures of social well-being are aggregate numbers, which is to say they synthesize the overall well-being of the nation in a single data point. GDP per capita is the most widely used measure of social well-being. This can be misleading. For example, in a "society" of ten people, if one community member has an income of ten and the rest of zero they would have the exact same overall gdp per capita as another society where ten members draw an income of one each. By definition, GDP is a measure of social well-being that disregards the differences between individuals, looking instead at the sum of the riches produced.

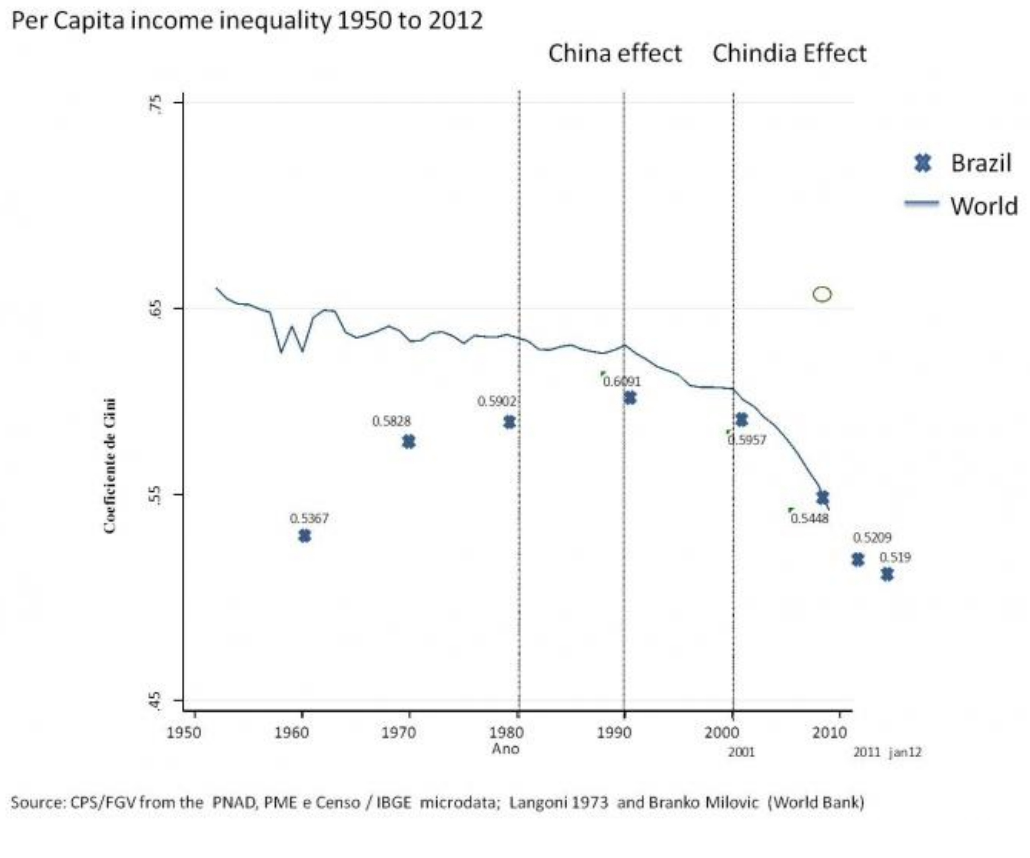
On the other extreme is an alternative metric of well-being that gives greater weight to those in society who have less. By this method, first we classify people by their earnings then assign a weight to each individual income, proportional to his respective place in the overall ranking. In this way, the richest of the rich are "worth" less on the social scale (that is, their income carries a weighs of one) while the poorest of the poor are worth more (income carries weight of ten). By this measure, each individual's value is inversely proportional to what they earn, inverting the mathematical logic of GDP calculations.

Measures of inequality are derived from functions of well-being. For example, the Gini coefficient - the most widely used indicator of inequality - draws on the weighted measures cited above, by which the poorest matter most. The Gini coefficient rages from 0 to 1: the closer a society's Gini score is to zero, the nearer that society is to perfect equality, in which all members are equal. On the other hand, a Gini ranking of 1 means one individual holds all the wealth. Of course, there is no definitive measure of inequality or well-being, but these different metrics offer important perspectives from which we can observe varying aspects of the same situation.

In his 2011 book, the World Bank's Branko Milotovic takes the numbers game to another level by calculating global Gni, analyzing the differences in the average incomes between nations, each weighed according to its respective population. This exercise assumes perfect equality within each country.

In the words of Roberto Martins, the income inequality curve in Brazil between 1970 and 2000 resembles an electrocardiogram of a corpse. The only vital signs appeared during the intensely income concentration decade of 1960 and 1970, when the country's Gini climbed (or worsened) to 0.6 and stabilized there.

International inequality between 1964 and 1990 can be illustrated by the same flat-lining analogy of a cadaver. The parallels between Brazilian and global inequality during this period are illustrated below, on the X-axis.



Global income inequality began to drop with the onset of Chinese growth, falling from 0.63 in

1990 to 0.61 in 2000. It fell again, and even more dramatically, after 2000 when the Indian miracle kicked in. China and India, after all, are home to half the world's poor. The fact is that, starting last decde, when Chindia took off, the global Gini coefficient fell to 0.54, the lowest level since it was first measured in the 1950s.

Brazil started to narrow its income gap only in the 2000s. After 30 years of stubbornly high inequality, the Brazilian Gini began to drop in 2001, falling from 0.6 to 0.54 by 2009. Both values are very close to globe Gini scores at approximately the same dates. In this way, Brazil looks like the world writ small. That is, the wealth gap among Brazilians is a miniature of the inequality between nations. And since Brazil's rich-poor divide tracks the global divide over an entire decade, Brazil is not just a snapshot but a moving picture of world inequality.

And the rich-poor divide continues to fall. In 2010, inequality fell below 1960s levels, decreasing for the twelfth consecutive year. In January 2012, Brazilian Gini tumbled to 0.519, falling over the previous year at almost twice the rate of the beginning of last decade. As the gap between classes has tightened in Brazil, the recent bout of economic crisis has narrowed the distance between rich and developing nations. In this sense, the rise of the BRICs nations has a parallel in Brazil where tens of millions are climbing out of poverty.

There is also a clear disconnect in the war of public opinion. Lately demonstrators have grabbed headlines by occupying Wall Street and protesting other symbols of wealth and privilege across the developed world. But recent developments tell a different story. When future historians look back at Brazil and the world, they are more likely to describe the beginning of the new millennium not as the era of the "1 percent", but a time of unprecedented shrinking inequality.

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