Brazil's Narrative of Equality Is Oversold

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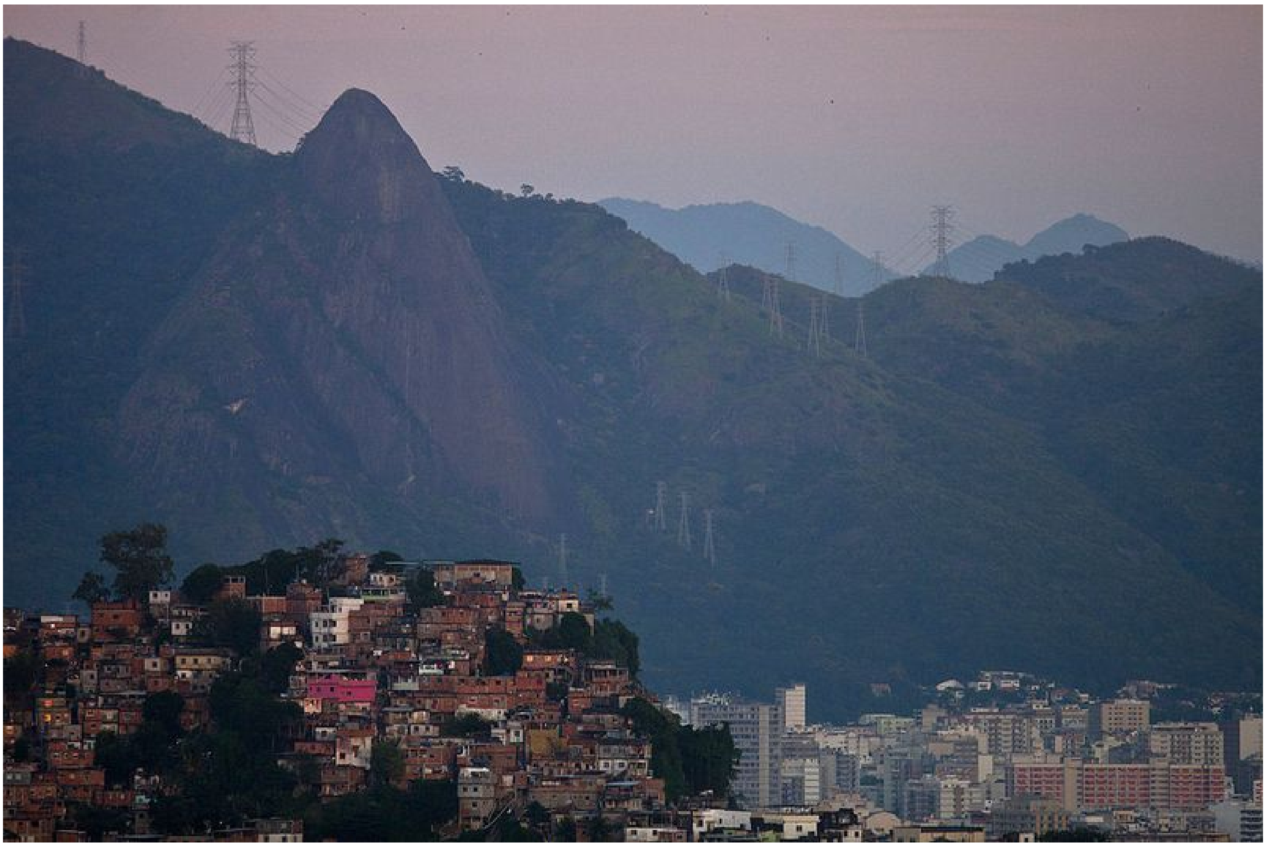

Brazil's billionaires not pictured.

Photographer: Dado Galdieri/Bloomberg

Despite progress fighting poverty, South America's largest economy is still marked by vast disparities.

by

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Not so long ago, Brazil seemed to be near a turning point. Latin America's largest nation wasn't just growing and generating jobs; it was finally poised, it seemed, to close one of the world's most notorious gaps between rich and poor.

Out went the old trope of "Belindia" -- Brazil as a wealthy Belgium ringed by a vast and desperate India -- and in came a new story of social inclusion for the least favored. For 12 years, the ruling claque spun that fabulous narrative into political glory, sweeping four straight presidential elections while touting its headline poverty-busting program abroad as a novel brand of soft power.

Yet like most political silver linings, this one too came wrapped in a cloud. New research in Brazil and abroad has shown that the country's vaunted leap forward to social equity was oversold. While the lot of the poor did indeed improve, the chasm separating them from the highest earners did not. "The concentration of income at the top is striking," Marc Morgan, of the World Wealth and Income Database, recently wrote in a study of Brazil.

So what went wrong? It wasn't Bolsa Familia, the targeted cash transfer program for the neediest families which since 2004 helped more than 28 million escape poverty at a fraction of the cost of traditional welfare. But to a number of researchers and policy wonks in Brazil and beyond, something about this Latin American Cinderella story didn't sit well, and the problem began at the top. What the doubters caught was a gap in the data on inequality, which apparently had low-balled the numbers from the wealthiest Brazilians.

This oversight owed to a weakness built into the method for collecting census information, a heroic effort traditionally tasked to an army of surveyors who went door to door to inquire about household goods and income. The difficulty was assessing the fortunes of the wealthiest. Because census takers often were barred at the mansion door and the rich were wary about sharing their secrets, the underreporting of elite income and assets was a constant worry.

As it turned out, by relying solely on household data, officials were flying half-blind. The conversation changed after the French economist Thomas Piketty published his vast study on global inequality, which drew heavily from income tax returns from rich nations. "We knew from household surveys that there was a lot of stuff going on at the bottom of the social pyramid," Monica de Bolle, of the Peterson Institute for International Economics, told me. "What we didn't see is that there was also a whole lot of stuff happening at the top. That's where income tax data came into play."

Following Piketty's lead, Brazilian researchers started poring over national fiscal data, but ran into a wall. After all, Brazil's tax office kept only patchy records, and stopped publishing its numbers altogether in 1988 -- ostensibly to protect taxpayers' privacy. That state of affairs lasted until 2014, when it started releasing the data piecemeal.

A research team led by University of Brasilia sociologist Marcelo Medeiros had tried a workaround by crossing household income with public fiscal data and gross domestic product, and even with holes in the dataset, the results were jolting. "We ran the numbers again and again, through about 10 different tests, and the results were surprising but clear," said Pedro Souza, of the Institute of Applied Economic Research and a member of Medeiros's team, who has tracked Brazilian inequality since 1926. "There was no question: Poverty had indeed fallen, but inequality was barely changed."

Even more startlingly, the top 10 percent pocketed 61 percent of economic growth during that period, more than three times the share of the poorest half of society.

That stood in stark contrast to the claims of a few years ago, when officials in Brasilia heralded the 2000s as a "decade of inclusion," with the earnings of the poorest 10 percent of society supposedly surging 550 percent faster than the richest tenth -- veritable "Chinese growth rates," as one think tank hailed.

At a time when corruption has disgraced Brazil's political class -- the least trustworthy among 137 nations ranked in the World Economic Forum's latest competitiveness survey -- the news that the privileged also have maintained their edge through boom and bust has roiled public debate.

Sure, flagrant inequality provokes resentment, which can prove politically toxic. "Excessive concentration of economic power is not just unfair; it's also a threat to the workings of democracy and it's bad for capitalism, because it skews the playing field," Medeiros said.

And yet if everyone agrees that poverty has fallen, should it matter that a wealthy few also have made out well? Getulio Vargas Foundation economist Marcelo Neri, who allows he is reviewing earlier research showing a fall in inequality, argues that the new data are nothing to mourn. "Now we know that Brazil is much richer. OK, some more than others, but no one is worse off," Neri told me. "That's something to celebrate."

It's a global debate, of course, and one which has taken on combative tones in Brazil, where according to a recent study, six Brazilian billionaires hold as much wealth as their poorest 100 million compatriots combined.

But there are some important caveats. While soaking the rich makes an attractive campaign banner, more taxes aren't the answer. Brazilians already pay around a third of everything they earn to government, close to the average rate for high- and middle-income countries in the Organization for Economic Cooperation and Development. Yet for all that largesse -- Brazil shells out more on education, proportionally, than all but three OECD countries -- its 15-year-olds nonetheless perform "significantly below" their peers in reading, science and math.

Overhauling the social security system is vital; the current arrangement shifts wealth to the more privileged pensioners in public service at taxpayers' expense. However, pension reform is hugely divisive and has been watered down by vested interests with a captive audience in the legislature. Analysts now reckon that to appease discontents, the government will settle for a stripped-down reform that sets a minimum retirement age (Brazil currently has none), and claim it as a victory.

Brazil's reformers could score a more immediate win by tackling the cockeyed tax system itself, in which consumers pay taxes on top of taxes for goods and services. While other countries look especially to levies on income, property and capital gains, Brazil relies heavily on easy-to-collect and yet highly regressive consumption taxes, a burdensome scheme that hobbles growth and weighs disproportionately on the least advantaged, who spend a larger proportion of their wages at the grocery store and the pharmacy.

Brazilians pay an indulgent 5.85 percent on profits, income and capital gains, lower than all OECD nations and a sop to the highest rollers. However, they pay over 16 percent on goods and services, just behind Hungary, according to research by Brazil's former chief tax inspector Jorge Rachid.

"Our tax system is chaotic and unjust. We're killing the consumers," Social Democratic Party lawmaker Luiz Carlos Hauly, a tax reform evangelist, told me. Hauly has filed a bill calling for the elimination of levies on food and medicine, and the transformation of nine separate and often overlapping taxes into a single value-added tax. "At least half of Brazil's inequality derives from poor distribution of taxes," Hauly said.

Of course, tax reform alone won't close Brazil's infamous gap between rich and poor, never mind turn Belindia into France. But a more equitable system can go a long way to easing the bite on those with the shallowest pockets, and maybe even help return Brazil to steady growth -- without which no one wins.

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