

Poverty to fall for first time since 2014, following electoral cycle

By Bruno Villas Bôas | Rio de Janeiro



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In spite of the slow economic and job recovery, the electoral cycle is likely to contribute to a small reduction in poverty this year, the first since 2014. The next president to take office is expected to find a country with 22.8 million people living below the poverty line — 470,000 fewer than last year and 10.9% of the overall population.

According to a study by think tank FGV Social, based on Brazilian Institute of Geography and Statistics (IBGE) data, poverty began growing in 2015, when the crisis made employment and income fall. From the beginning of that year to 2017, the crisis pushed 6.3 million into poverty. Late last year, 23.3 million were below the poverty line, or 11.2% of the Brazilian population.

Marcelo Neri

Economist Marcelo Neri, director of FGV Social and an expert on the matter, estimates that the down-cycle will be interrupted this year. To come up with this conclusion, he considered a range of income indicators, income-transfer programs (like Bolsa Família), inequality and GDP per capita growth.



In addition to these indicators, Mr. Neri analyzed mechanisms that connect the elections with income policies from 1992 to 2006. He identified that the income always grows more in election years. On average, income from social-aid programs grows 22.6% in election years, followed by rises in pension (10.5%) and labor (3.2%) benefits.

“We saw that the effect is greater on the benefit of social programs. It not only increases in election year, but increases for the voting population. The same happens with pension income. In election year, the overall income increases, especially for the population aged 16 or older. The explanation is an opportunist political cycle,” he says. Mr. Neri was minister of the Secretariat of Strategic Affairs and Ipea president during the Rousseff administration.

The data of poverty change in elections are impressive. Poverty has fallen in all years of presidential elections since the end of the military dictatorship. The average decline is 12.8%. The drop was particularly sharp in 1986, year of the Cruzado Plan, whose price freeze caused a strong real salary gain. “Even without 1986, poverty falls on average 8.3% in election year,” Mr. Neri says.

If politicians have always used cash-transfer programs aligned with the country’s electoral cycle, this time it has not been different. In June, the government announced a 5.7% raise in the value of the Bolsa Família benefit. This way, the monthly amount rose to R\$187.79 from R\$177.71. That was a higher rise than inflation. Bolsa Família benefits 13.7 million families.

FGV Social estimates poverty will fall 2% this year, afflicting 10.95% of the population. Even with the slight improvement, the number of people below the poverty line will be higher than in the latest general-election year, 2014, when it was at 8.3%, the lowest on record.

Mr. Neri says the next president's challenge will be to stop another pattern identified by FGV Social: the increase of poverty in post-election years. "Of all elections captured, poverty grows in the following year in all but one. The growth of post-election poverty was on average 14.9%," he says.

The programs of presidential candidates in general acknowledge the obvious: poverty and inequality are big challenges to be tackled by the country, after years of worsening in indicators. They address these issues in a more or less objective way, depending on the candidate.

The program of the leader in voting-intention polls, Jair Bolsonaro (Social Liberal Party, PSL), suggests economic liberalism as the solution. "Thanks to liberalism, billions of people are being saved from misery around the world." It also suggests the need of get rid of "populism and ensure that lack of control of public accounts never becomes a threat to the population's well-being."

The government program of Marina Silva (Sustainability Network, Rede) promises pro-active work to "connect people in poverty situation and the opportunities to overcome their difficulties, ensuring full, integrated and personalized attention to every family."

Ciro Gomes (Democratic Labor Party, PDT) promises in his program to expand the welfare network to disadvantaged people, such as Bolsa Família and the Continuous Cash Benefit. "A well-designed and executed social policy contributes to distribute income to the poorest and to reduce poverty," the program states.

Geraldo Alckmin (Brazilian Social Democracy Party, PSDB) doesn't cite in his program terms such as poverty and misery, but says that without growth the country will be unable to solve economic and social problems, or fight inequalities. "Brazil needs to grow again, attract private-sector investment and create jobs and income," the program says.

FGV Social considered the poverty line as regular monthly income of R\$233 per individual. There is no official criterion for the poverty line. Bolsa Família, for example, defines it as R\$178. The World Bank adopts a line of \$5.50 per day for medium-development countries like Brazil — something like R\$390 per month.

There are also other poverty criteria, like the so-called extreme poverty. The World Bank, for example, considers \$1.90 per day, or the equivalent of R\$134 per month at 2016 prices, as the line for that. Valor has reported that there was a sharp growth of this poverty through 2017.

Despite the projected decline of poverty this year, FGV Social predicts that income inequality will increase this year. The Gini coefficient — which measures inequality in a scale of zero to one, with zero being perfect equality — was at 0.5915 in the second quarter, after 11 consecutive quarters of growth. The coefficient was at 0.5636 in the fourth quarter of 2014.

Inequality growth would not be incompatible with the poverty reduction. Inequality grows when the income of the poorest share of the population gets farther from that of the richest share. This may happen without the poor becoming poorer, but simply because of the income growth at the top of the social pyramid.