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President-elect to face highest inequality since 1980s

By **Bruno Villas Bôas** | Rio de Janeiro

The president-elect will take over the country after a period when social inequality increased to the highest levels since re-democratization. Data collected by FGV Social's [Center for Social Policy](https://portal.fgv.br/en/fgv-social) (<https://portal.fgv.br/en/fgv-social>), show that between late 2014 and the third quarter of this year, the Gini Index — which measures income inequality in a range from zero to one, with zero being the perfectly equal distribution — jumped to 0.5915 from 0.5636. There were 11 consecutive quarters of increase on a year-on-year basis, a deterioration period not seen since the 1980s.

This was the latest move of the four major inequality cycles in the last 60 years, says economist Marcelo Neri, director of FGV Social and author of the study.

The distribution of wealth, which is barely mentioned in the electoral debate, has become even more uneven in the last four years, when the crisis affected income of the population's 40% poorest. For experts, the next president will have the big challenge of tackling inequality by attacking structural problems, with poor public education, unfair tax system and privileged pensions.

Among the presidential candidates' proposals are topics such as progressive tax reform, pension reform to fight privileges, expansion of income-transfer programs (such as Bolsa Família) and creation of formal jobs. These are some of the ideas to reduce Brazil's gap between the rich and the poor.

Inequality increased for the first time in the 1960s-1970s cycle, a period that Mr. Neri called "concentrator miracle." He refers to a phase of strong economic growth, followed by increasing disparity between the top and bottom of the pyramid.

From the mid-1970s to 2001, inequality would not have shown a clear behavioral trend. It was an instability period for the Gini Index and Brazilians' income. "Those were lost decades in the dimension of income and inequality, although the period includes relevant moments, such as the 'political opening' and inflation stabilization, with the Real Plan," Mr. Neri explains.

Brazil started a falling-inequality cycle after 2001. During this period, there was a better income distribution through job creation, income-transfer programs and increased access to education. It was also, on the other hand, the period in which the economic crisis of the following years was "sown."

"The fourth quarter of 2014 marked the beginning of the abyss. First, there was an increase in inequality followed by the population's loss of income. From mid-2016, we see a recovery in average income, but this does not translate into improved well-being for the population because inequality continues to grow," Mr. Neri explains.

In order to know their proposals, Valor contacted campaigns of the five presidential candidates better placed in the Ibope and Datafolha voting-intention polls. Only the campaign of Jair Bolsonaro (Social Liberal Party, PSL) did not return interview requests. The candidate's program filed with the Superior Electoral Court (TSE) gives too little information on the subject. It suggests that the fiscal imbalance generates inflation, which increases inequality. And that the privatization debate aims at income distribution.

Fernando Haddad (Workers' Party, PT) mentions in his program the need for a tax reform guided by progressivity principles and exemption from income tax for workers living on up two times the minimum wage, with the "super-rich people paying more." The program also mentions the need to increase investments in income-transfer program Bolsa Família and wage increases.

Democratic Labor Party (PDT) candidate Ciro Gomes has as a priority investing in improving public education and expanding social programs, as well as ensuring quality jobs. He also advocates "establishing higher tax collection progressivity, charging less from the middle class and the poorer and more from those who can afford more."

As for the campaign of candidate Marina Silva (Sustainability Network, Rede), it has among its proposals to reduce inequality the tax and Social Security reforms, and also measures to improve health and education. The program of Geraldo Alckmin (Brazilian Social Democracy Party, PSDB), for its part, promises to "improve public education and expand social program Bolsa Família, with higher benefits for those most in need."

Inequality is measured by the income gap between the poorest and richest portion of the population. It is possible to cut inequality, therefore, without taking any Brazilian out of poverty — it would be enough to turn the richest less rich to reduce the distance. This is not, of course, the desirable path. The fact is that no isolated measure would be enough to reduce inequality.

For Mr. Neri, all measures have their role in shrinking the gap. He advocates greater emphasis on welfare and income policies. "A well-designed reform is the most urgent to redistribute income to the poorest, to fight fiscal obstacles to growth and to generate equity," says Mr. Neri, who was a minister in the Dilma Rousseff administration and is not an advisor to any campaign.

Pedro Herculano Guimarães, a researcher at the Institute for Applied Economic Research (Ipea), advocates a broad spectrum of measures, such as improving quality of public education in a "massive" way, in addition to a tax reform.

"It is necessary to discuss a tax reform that is concerned about taxing consumption and services less and gradually increasing the weight of other taxes, such as income tax on some financial investments, profits and dividends. Income-transfer programs are important, as well as the pension reform and economic growth. "

But Mr. Guimarães questions the fall in the country's inequality in recent decades. He is one of the pioneers in Brazil who use the method of French researcher Thomas Piketty to analyze social inequality by including income tax data to calculate the Gini Index.

For Mr. Guimarães, there was in fact a drop in labor-income inequality, but also an increase in capital income in the 2006-2012 period. Considering Brazil's income inequality level, therefore, little would have changed over almost a decade.

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