Brazil's Rich Are Spending Less on Luxury But Feeling No Pain

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Business

Brazil’s Rich (Sort of) Tighten Their Gucci Belts

A falling tide lowers all boats. But in one of the world’s most unequal societies, you’re still better off on a yacht.

By
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The lapse of luxury?

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It’s been tough going for imported silks and treats in Brazil. After 20 years flogging its finery in Brazil, Versace shuttered its lone shop at Sao Paulo’s Shopping Iguatemi mall last Christmas. Time’s up as well for local operations of Swiss luxury goods combine Richemont and its trove of high-end wrist candy by IWC, Jaeger-LeCoultre, Panerai and Van Cleef. French macarons are scarce as starry skies in Sao Paulo and pity the town’s ersatz James Bonds, who lost their lone Aston Martin dealership in 2017. Mexico has overtaken Brazil as Latin America’s most attractive luxury goods market.

Don’t reach for that monogrammed hanky just yet. Despite a sharp downturn from earlier this decade, Brazil’s fancy goods market is outpacing the overall economy: Total luxury grew 4.2 percent in 2018, according to Euromonitor, and personal luxury is on track to accelerate from last year's 1.3 percent expansion in the first quarter of this year, according to Deborah Aitken of Bloomberg Intelligence. Moreover, the outlook through 2022 is still upbeat, according to Mauro Mantica of Update Brazil Consulting.

In other words, the luxury goods debacle is real, but in a familiar Brazilian way. Yes, all boats drop on a falling tide, but in Brazil’s ebbing economy you’re much better off on a yacht. That’s the story in one of the world’s most unequal nations, where the fallout from a failing recovery weighs heaviest on consumers at the bottom.

It’s not just that the well-heeled trim the frills and fall back on reserves when fortunes turn. In many ways – time and again, in fact – the moneyed manage to consolidate their privileges even as the market punishes everyone else.

Brazil-watchers have learned that the roaring 2000s, fueled by the global commodities boom, were not the revolution in social justice that Brazilian leaders once heralded. Poring over once-hidden income tax data recently released by the country’s fiscal authority, researchers found that while the poor got less poor and tens of millions of Brazilians clambered into the middle class from 2001 to 2015, the rich got even richer. “Overall, elites still managed to capture disproportionate fractions of total growth due to their disproportionate share in total income,” wrote Marc Morgan, of the Paris School of Economics & World Inequality Lab.

The record 2015-2016 recession and the torpid recovery since have only aggravated Brazil's storied inequities. "In times of crisis, the wealthiest people with more formal education are better able to protect themselves," Center for Metropolitan Studies sociologist Rogerio Barbosa, now a visiting scholar at Columbia University, told me. "Those with lower incomes are more vulnerable and in a retraction, they're the first to lose." Income inequality has increased steadily for the last 17 quarters, the Getulio Vargas Foundation of Rio de Janeiro recently concluded.

The national mood matches the numbers. Once, Brazilians ranked among the world's most upbeat societies. Now the dud economy has blighted the national spirit. A recent Gallup World Poll showed that Brazilians suffered the third largest drop in self-declared well-being among 130 countries. Typically, though, not all the discontents are aggrieved in the same way. "The country's happiness score took a spectacular plunge through the severe economic retraction from 2014 to 2018," said Getulio Vargas Foundation economist Marcelo Neri, who studies inequality. "Even so the rich are less discontented than the rest."

Crunching the micro data, Neri found that on a 10-point scale, the country's richest 20 percent saw their happiness score slip from 7.5 to 7.0 from 2013 to 2018. By contrast, the general population's funk increased by nearly double that rate (7.1 to 6.2) during the same period.

The well-being gap mirrors another more stubborn Brazilian disparity: the Gini index. Gini measures income inequality on a zero-to-one scale: the closer to zero, the more equal the society. From late 2014 to late 2018, per capita income inequality took a marked turn for the worse, from 0.564 to 0.590, according to Neri. While the nominal change seems modest, Brazil hasn't seen such a sharp rise in income inequality since 1989, when debt and hyperinflation raged, Neri said.

So abrupt is the current reversal of fortunes, Barbosa says, it outpaces the good news of a decade ago: from 2003 to 2009 Latin America's middle class grew by 50 percent, with Brazil's rising poor kicking in 40 percent of the regional increase. By 2014, some 29 million Brazilians had emerged from poverty. Yet since then, some 6.3 million tumbled back into hardship, with income inequality increasing by 50 percent by June 2018.

The implications of this reversal go well beyond baubles and BMWs. For instance, no one has lost more than young people and those in extreme poverty. To rise from its current rut, Brazil must grow faster and more robustly, and fairer, as well. "Growing in an unequal manner means forfeiting your potential for raising general well-being," Barbosa said. That can't happen unless Brazil remakes the hoary policies which conspire to concentrate wealth, retard productivity and favor the elderly over the young.

President Jair Bolsonaro, a bilious ultraconservative who seems distracted by the culture wars, has outsourced big fixes on taxes and pensions to his Economy Minister Paulo

Guedes. Convincing the fractious legislature of their urgency is another matter, as Guedes has found in series of confrontational committee hearings.

The regressive tax system needs a remake to shift the burden from consumer goods, for which the poor spend the largest share of their wages, to income and assets. Relatively bountiful government wages aggravate inequality by favoring a public sector elite, in contrast with the practices of the nations of the Organization for Economic Cooperation and Development. Privatizing state companies, though still a political taboo, would also spare revenues and raise taxes that could be redirected to health or social programs.

Brazil could narrow the wealth gap by expanding cash transfers through the poverty-busting Bolsa Familia stipend, which does more than retirement benefits to aid the poor, and investing in basic education, where each additional year in the classroom brings a 13 percent wage premium.

And yet none of this will do much to bridge the crater between rich and poor without reforming the cockeyed social security system, which Guedes rightly called a factory for inequality. Consider that Brazil's richest retirees (the A and B classes) draw an average pension 100 times greater than the poorest 14 percent, said Neri. "Instead of compensating inequality the current pension system concentrates wealth," he said.

Too bad that message got drowned out in this week's street protests, where tens of thousands marched against Bolsonaro's draconian education policy and most everything he stands for, including remaking the pension system. You don't need a Patek Philippe watch to recognize that Brazil is running out of time to fix its economy and safety net. Popular outrage over cockeyed decisions – allowing more guns to circulate in Latin America's most murderous nation, slashing funds for all universities and scholarships -- is one thing. But conflating partisan aggrievement with vital reforms is one luxury that no Brazilian can afford.

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