

# The Economist

Britain after Brexit

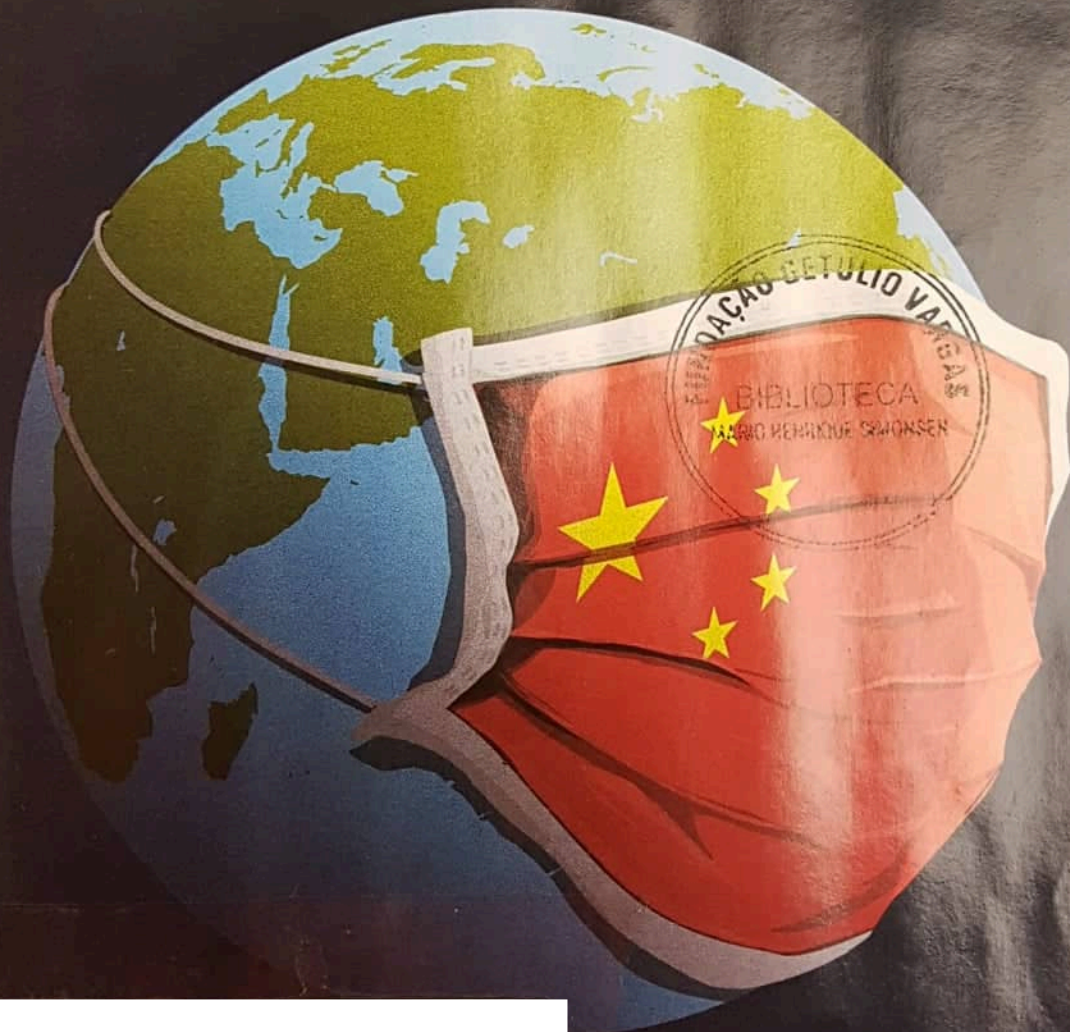
Trump's one-sided peace plan

Private markets—a dangerous obsession

The problem with puberty blockers

FEBRUARY 1ST–7TH 2020

## How bad will it get?







### Poverty in Brazil

## Left behind

BELÁGUA, MARANHÃO

**A model anti-poverty programme has fallen on hard times**

**L**AST YEAR Natália Ribeiro sent her five-year-old daughter to live with relatives because she could not afford to feed her. She had tried to sign up for Bolsa Família (Family Fund), a conditional cash-transfer programme that supports millions of poor Brazilians. That includes 80% of families in Belágua, a town of 7,000 people in Maranhão, the poorest state. Ms Ribeiro should have been a shoo-in. She has no income. Her three children get regular health check-ups and will go to school, she promises. That is a precondition for receiving the monthly benefits, which start at 89 reais (\$21). She has been waiting since May. "I want a better life for my little ones," says the 24-year-old, who has long eyelashes like the baby in her lap and the toddler playing with a piece of wood on the floor.

In June last year Brazil's populist government, which had taken office five months before, slowed the acceptance of new beneficiaries and started cancelling

payments to existing ones. The number of families admitted to Bolsa Família has dropped from 275,000 a month to fewer than 2,500. The number receiving benefits has fallen by 1m. The government says that 700,000 are on the waiting list, which may be an underestimate.

To critics of Jair Bolsonaro, Brazil's president, this is evidence of his indifference to poverty. Mr Bolsonaro once called Bolsa Família beneficiaries "ignorant wretches". As a candidate he tried to reassure them by promising 13 "monthly" payments in 2019 (copying the Brazilian tradition whereby formal workers get an extra month's pay at Christmas). His government did not budget for that extra payment, however, so it

has had to cut the number of beneficiaries.

The economy minister, Paulo Guedes, vows to fight poverty in a different way from earlier, left-wing administrations. While trimming Bolsa Família, the government is making much bigger cuts to spending that benefits prosperous Brazilians. Smaller deficits and less debt will encourage economic growth by holding down interest rates. That will create jobs, which are better than handouts, Mr Guedes argues.

But the government's treatment of its flagship safety-net programme raises doubts. Growth alone is unlikely to banish poverty. Nor will it reduce inequality, which has been stratospheric for over a century. In 2018 the average income of the richest 1% of Brazilians was 33.8 times that of the poorest 50%, a ratio surpassed only in Qatar. The Gini coefficient, another measure of inequality, was 0.53 in 2017, on a scale where zero is perfect equality and 1 means that one person has all the income. Among large democracies, only South Africa does worse.

It does not have to be this way. Brazil has a big state. Taxes are a third of GDP, about the average for a rich country (which Brazil is not) and far above the Latin American average of 23%. The state's hefty resources could be used to lift up the poor. Public pensions, welfare payments and other transfers are a whopping 23% of Brazil's

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GDP, even higher than in most rich countries. But unlike in Europe, where taxes and transfers greatly reduce inequality, in Brazil they are "hardly redistributive", says Mansueto Almeida, the treasury secretary. According to data compiled by the University of Pernambuco, in 2015 taxes and transfers reduced the average Gini coefficient in OECD countries from 0.47 to 0.31. In Brazil they cut inequality by only half as much.

The reason is that handouts are skewed towards the well-off. More than four-fifths of Brazilian transfers are pension benefits, compared with half in the European Un-

ion. Public pensions in Brazil are extremely regressive: just 2.5% of the cash goes to the poorest quintile, while the richest gets more than half. That group also benefits from tax loopholes not available to the poor. Servants of the state, who earn more than private-sector workers with similar qualifications, are especially cosseted. Last year a congressman billed taxpayers 157,000 reais for cosmetic dentistry. Some judges earn more in a month than those in rich countries make in a year.

Bolsa Família, by contrast, goes directly to the poor. Under Luiz Inácio Lula da Silva,

a left-wing president from 2003 to 2010, it grew into the world's largest conditional cash-transfer programme. The benefits are paid mostly to women via a chip card. More than 30m Brazilians escaped poverty between 2003 and 2014, thanks to Bolsa Família, other pro-poor policies and a commodity boom. In Belágua, most people now eat two meals a day instead of one. Houses are made of cinder-block, not banana leaves. "You don't see kids working in the fields anymore," says Zé Raimundo Santos, the president of the agricultural co-operative.

Bolsa Família was especially important ▶▶

## Bello Peru and the difficulty of reform

*A congressional election vindicates but doesn't strengthen Martín Vizcarra*

IT WAS THE most popular thing any Peruvian president has done in a long time. Facing a serially obstructive congress widely seen as defending corrupt interests, in September Martín Vizcarra decreed its dissolution. This was constitutionally questionable and set a worrying precedent. But in political terms, the outcome of an election held on January 26th to replace the dissolved congress vindicated Mr Vizcarra. It also highlighted the weaknesses of Peru's political system, and has not made his project of institutional reform any easier.

Mr Vizcarra, who was elected as vice-president in 2016, took over the top job almost two years ago when Pedro Pablo Kuczynski resigned over conflicts of interest. He inherited a battle with congress, dominated by the opposition led by Keiko Fujimori, the daughter of a former president. When leaked phone calls revealed apparent collusion among some judges and opposition lawmakers, Mr Vizcarra successfully appealed for public support in a referendum on reforms of the judiciary and politics.

That gave him the initiative, but only for a while. To break the deadlock Mr Vizcarra proposed calling an early general election. Ignoring this, the *fujimoristas* went ahead with a rushed vote to appoint new justices to the constitutional tribunal. The president claimed that this amounted to a (second) denial of confidence in his government. Under Peru's semi-parliamentary constitution, that is grounds for the dissolution of congress. In January the tribunal upheld by four votes to three the constitutionality of the president's action.

The voters inflicted a crushing defeat on the *fujimoristas*, who slumped from 36% of the parliamentary vote in 2016 to 7%. Two smaller allied parties failed to

enter the new congress. That is the extent of the good news for Mr Vizcarra. The election marked an exacerbation of Peru's political fragmentation. Nine parties obtained the minimum 5% of the vote required to win seats in the legislature but none got much more than 10%.

On paper, centrist parties will be the largest contingent, though the right is also strong. Two newcomers offer some cause for disquiet. The Agrarian Front, a party linked to a millenarian Old Testament cult, won at least 15 of the 130 seats. And 17 were taken by the party of Antauro Humala, a proto-fascist former army officer (and brother of a past president) serving a 19-year jail sentence for an assault on a police station in 2005 in which six people died.

Their success is, in different ways, a protest against the Lima political establishment. Neighbouring countries have seen sometimes violent street protests in recent months. In Peru, the dissolution of congress and the jailing of several former presidents over accusations of corruption (none of which has yet been proved) have taken some of the sting out of popular

anger. On January 28th a judge remanded Ms Fujimori for a second time over accusations of irregularities in campaign finance in 2011.

Perhaps, too, the flexible nature of Peru's political culture provides resilience. But it might make reform harder. After the recent confrontations both public opinion and many politicians favour co-operation. But Mr Vizcarra has only a year or so to complete the task of institutional reform he set himself before the general election in April 2021.

The government has already set up a new body, picked on merit, to oversee judicial appointments. Several measures approved by the outgoing congress are aimed at cleaning up, and solidifying, political parties. Some are useful. They include tightening up rules on campaign finance, steps to cut the cost of politics and, from 2021, the shutting down of parties that fail to cross the 5% threshold. Pending are a tighter definition of parliamentary immunity and, perhaps, the addition of a senate to Peru's small single-chamber legislature.

The election offers few pointers to the 2021 presidential contest. "Everyone is weak and anything can happen," says Alberto Vergara, a political scientist. By championing the fight against corruption, Mr Vizcarra has achieved the rare feat for a Peruvian president of remaining popular. Now more may be needed. The government is trying to improve health care and rural roads but is dogged by union pressures to raise public-sector salaries and business opposition to higher taxes (which raise revenue of just 14% of GDP). A new political system may yet emerge. But if Peru is to continue to enjoy economic growth and to avoid a Chilean-style social explosion it also needs a stronger and more effective state.





in rural towns like Belágua, where money had barely circulated, says Maria Ozanira da Silva e Silva of the Federal University of Maranhão. Women could buy food on credit in Belágua's first shops. Children spent more time in school and less time sick at home. Programmes such as Minha Casa, Minha Vida (My House, My Life) subsidised the construction of 4m houses, including Ms Ribeiro's. In the election in 2018 all but 295 voters in Belágua voted for the presidential candidate of Lula's Workers' Party.

But Belágua remains poor. Though its name means "beautiful water", the road from São Luís, Maranhão's capital, is often too muddy in the rainy season and too sandy in the dry season for ordinary cars to pass. The local government is the only employer. Some households split one job paying the minimum wage of 1,039 reais a month four ways. Most families earn a pittance grinding cassava into tapioca flour. The work is gruelling. Mr Santos looks 70 but is 50.

When Brazil's worst-ever recession began in 2014, progress stopped and in some areas went into reverse. GDP per Brazilian dropped by 10% from 2014 to 2016. The number of unemployed nearly doubled to 14.2m, 13.7% of the workforce, from 2014 to 2017. Although the economy is recovering, 11% of the labour force remains unemployed. At the end of 2018 the number of people living on less than \$1.25 a day reached 8.2m, the highest since 2007 (see chart).

Mr Bolsonaro is dismantling what Mr Guedes calls the "machine of perverse income transfers" by reforming pensions. Minimum retirement ages (of 65 for men and 62 for women) and other measures will save the government 855bn reais over ten years. Thanks to low inflation and a fall in interest rates the government will pay 100bn reais, 1.3% of GDP, less to creditors in 2020 than it did last year, says Mr Guedes. The economy grew by 0.6% between the second and third quarters of 2019, and the number of unemployed people fell below 12m for the first time since the second quarter of 2016. Mr Guedes takes this as proof that pro-growth austerity is working.

But the government has let police and army officers keep their lavish pensions. It has not touched tax breaks for privileged industries and the rich, worth 4% of GDP each year. Instead it has picked on Bolsa Família, which in 2020 will cost just 0.4% of GDP. Unlike most government spending (including salaries and the health and education budgets) it is not automatically adjusted for inflation. Since 2014, the average benefit has fallen in real terms.

In Belágua *The Economist* spoke to half a dozen families that have spent at least six months on the waiting list or have lost benefits. They include a family of nine; a 20-year-old mother and her underweight newborn; and three adolescents who

dropped out of school because they could not afford uniforms.

In December the government suggested that it would increase Bolsa Família's budget by 16bn reais and rename the programme "Renda Brasil" (Brazil Income). But the economy ministry balked at the cost. Perhaps the government could spare 4bn reais, it said. Under a new budget rule, any increase in spending has to be matched by a cut somewhere else.

The Bolsa Família squeeze is the most important contributor to the recent increase in inequality, according to a study by economists at Fundação Getúlio Vargas, a university in São Paulo. "We pulled away the safety net when it was needed most," says Marcelo Neri, the study's lead author.

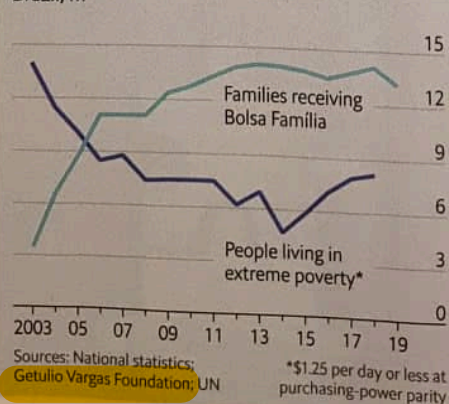
The government could save 9% of GDP by cutting wasteful spending further, eliminating tax breaks and narrowing the gap between public- and private-sector pay, says Arminio Fraga, a former central bank governor. It could spend that money to reduce the fiscal deficit, boost spending on infrastructure, health, education and Bolsa Família, and cut the tax burden. So there is ample room to make public spending both more progressive and more effective.

But Mr Bolsonaro seems unserious about some things that might help the poor. He dropped plans for a childhood literacy programme and recently named a sceptic of evolution to regulate universities. If the economic recovery doesn't reach poor Brazilians quickly, they could stage mass protests, as people have in other Latin American countries, warns Flávio Dino, the left-wing governor of Maranhão.

Maria marched only as far as the welfare office in São Luís, which told her in December that her monthly Bolsa Família benefit of 360 reais had been cancelled. A computer failed to register that she and her seven children had moved in June to a new town to escape her violent boyfriend. She has been waiting for months for the government to fix the mistake. "Bolsa Família is the father of my children," she used to say. The joke does not make her smile now. ■

### Bolsonaro narrows the Bolsa

Brazil, m



## Incan culture

# Knotty tale

LIMA

The last place where quipus, an Incan method of record-keeping, have a use

SAN ANDRÉS DE TUPICOCHA starts every year by swearing in new leaders, like many small towns in Peru. Instead of giving the office-holders a sash or medal it gives them a quipu, a coloured skein of knotted cords.

Quipus, or khipu, which means knots or talking knots in Quechua, were used to administer the vast empire of the Incas, which lasted for about a century until 1533. No one alive knows just how. San Andrés, in the highlands near Lima, is the last place in Peru where quipus have an official role, and that is ceremonial. "They represent who we are," says Tito Rojas, president of one of the town's ten communities. In December Peru's government declared its ritual of bestowing them on community leaders like Mr Rojas to be part of the country's cultural heritage.

The town's quipus are thought to date from after Peru's independence from Spain in 1821. They were used until the mid-20th century to record attendance at meetings, says Roy Vilcayauri, a former mayor. But the last person who could read that set died in 1990.

Scholars have been trying to puzzle out what messages are encoded in the knotted tally cords, which are usually made from dyed alpaca wool (they can also contain fibres from llamas, vicuñas and cotton). The type of knot, their number and their spacing conveyed numerical information. The placing of principal and subsidiary cords could show family or tribal relationships.

Quipus' main use was as a management tool, says Gary Urton, who set up the Khipu Database Project at Harvard University. From the Incan capital in Cusco to the empire's outer reaches in present-day Argentina, Ecuador and Colombia, quipus helped officials keep track of tax collection, command armies and maintain census records. The Incas had no written language. Quipus are the only documentary record of their life that does not come from Spanish chroniclers. Mr Urton has recorded the characteristics of more than 1,000 quipus in digital form and spent 30 years trying to understand them.

Nowadays the largest collection of quipus, around 350, is in Berlin's Ethnological Museum. Some 500 others are in Peru and Chile. To see quipus perform any function beyond serving as objects of study or curiosity, you will have to spend a new year in San Andrés de Tupicocha. ■