Brazil hands out so much COVID cash that poverty nears a new low
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Brazil President Jair Bolsonaro prepares to speak at an event at the Presidential Palace about the expansion of emergency aid to help the poor population affected by the coronavirus pandemic on Sept. 1, 2020, in Brasilia, Brazil.

By MARIO SERGIO LIMA, ANDREW ROSATI AND SIMONE IGLESIAS | Bloomberg News

(Tribune News Service) — Brazil, which has suffered one of the world's worst pandemic tolls, has responded to the crisis by distributing so much cash directly to citizens that poverty and inequality are approaching national historic lows.

Some 66 million people, 30% of the population, have been getting 600 reais ($110) a month, making it the most ambitious social program ever undertaken in Brazil, a shocking shift under President Jair Bolsonaro who railed against welfare, dismissed the virus — and now finds himself newly popular.

The government hasn't published its own figures yet but data from the Getulio Vargas Foundation, one of Brazil's top universities, show that those living on less than $1.90 a day fell to 3.3% in June from 8% last year, and those below the poverty line were at 21.7% compared with 25.6%. Both represent 16-year lows.

Economist Daniel Duque, the main investigator, said poverty has, in fact, hit the lowest rate since data collection began 40 years ago but a shift in definitions in 2004 makes direct comparison before then slightly complicated. He added that unpublished measurements from July and August show that inequality calculated by the so-called Gini coefficient fell below 0.5 for the first time ever.

In other words, as COVID-19 has killed some 122,000 Brazilians, it has paradoxically driven down poverty and inequality, at least in the short term, and also placed government welfare at the heart of political debate, like a decade ago with the "Bolsa Familia" program that lifted millions. The issue will reverberate in November's local elections, a dry run for the presidency in 2022.

Duque says it's as if Brazil had suddenly created a massive basic-income program. He believes it won't be possible to end it soon: "The population will surely demand more types of programs like this, and we can't run the risk of a massive drop-off."

In fact, the government has begun paring it back. On Tuesday, Bolsonaro announced that handouts would be halved for the remainder of the

year. And while he promised to make some form of stipend permanent he hasn't indicated how he will pay for it.

Economists say the approach is unsustainable. Brazil is headed to its largest primary deficit ever of over 11% of GDP this year, and "the challenge is how do you unwind from this?" says Christopher Garman, managing director for the Americas at Eurasia Group. "There is no free lunch."

Markets agree. Last week, investors engaged in a massive selloff of Brazilian assets after Bolsonaro suggested he might be willing to exceed constitutional spending caps to finance permanent stipends. The real slid more than 2.2% to 5.6320 per dollar, while Brazilian stocks fell 2.7%, the most in emerging markets. Both are still recovering.

This is due to the astronomical price of the program, known as the "coronavoucher," 50 billion reais ($9.3 billion) a month through August. It cost in five months what Bolsa Familia — created by former President Luiz Inacio Da Silva, or Lula — spent in eight years. That plan gives out $35 per month, reaching some 14 million families this year.

The coronavoucher, which accounts for nearly half of Bolsonaro's recovery package, has driven up his popularity, especially with the poor.

Jose Carlos Alves, 56, who sells souvenirs on the outskirts of Brazil's capital, Brasilia, says the $110 each month have shifted his politics as he faces more months without tourists or sales. Once loyal to Lula's long-ruling Workers' Party, he says the aid "shows Bolsonaro cares and now has my vote in 2022."

Monica de Bolle, a senior fellow at the Peterson Institute for International Economics, who advised lawmakers on the legislation for emergency aid, said this is a wider phenomenon: "Bolsonaro has realized the obvious: Brazil is a poor country with lots of poor people and if you give them cash transfers you'll get their votes."

Before the pandemic, Brazil had two years of recession followed by a very slow recovery, increasing poverty. More than a third of the country is on some kind of social benefit.

Bolsonaro, 65, a self-described right-winger who accused past administrations of running a "proletariat dictatorship," saw his approval rating rise to 37% in a recent poll by Datafolha from 32% in June. Among Brazil's lowest earners, it rose to 35% from 22%.

The government stimulus, which represents about 7% of GDP, is widely credited with saving Brazil from a grimmer outcome, although the economy is expected to contract more than 5% this year — less disastrous than Mexico and Argentina which could contract by some 10% each.

Even as the virus is spreading hunger from the U.S. to the Saharan Desert, many governments face the same challenge: how to pare back pandemic emergency spending without choking off fragile economic recoveries.

The U.S. also responded to the virus with the most generous social benefits in its history, including a $600-a-week top-up for unemployment payments, that increased average incomes. That program expired in July and lawmakers are still arguing over an extension, even as economists warn that it's too early to withdraw budget support.

In Europe, France, Germany, Italy and others are considering extending payroll aid for those out of work while the U.K. is planning to phase it out in October.

The coronavoucher in Brazil has raised questions of how best to deal with grinding economic vulnerability, whether Bolsonaro is exploiting cash stipends to stay in office — and whether opposing the handouts to defeat him is acceptable.

"People have a right to be concerned about Bolsonaro's populist inclinations and his ability to blow things up if he wants to," De Bolle said. "They are not right to be calling for fiscal adjustment now. Brazil has an epidemic that's completely out of control with a lot of people that, had they not received an emergency basic income program, would have probably died."