What Should be The Aim of Social Policies?

The National Household Survey (PNAD) conducted yearly by the Brazilian Institute of Geography and Statistics (IBGE) provides an important window on Brazil's social situation. Here we have divided the population into three groups based on per capita income: the richest tenth, which appropriates nearly half of national income (more precisely, 45.7%); the poorest half, which holds a bit over one-tenth (13.5%) of national income; and the 40% in the middle, which appropriates just about the same portion (40.8%) of the nation's total income. By this division, the individual income of the richest group is 16 times that of the poorest group in Brazil.

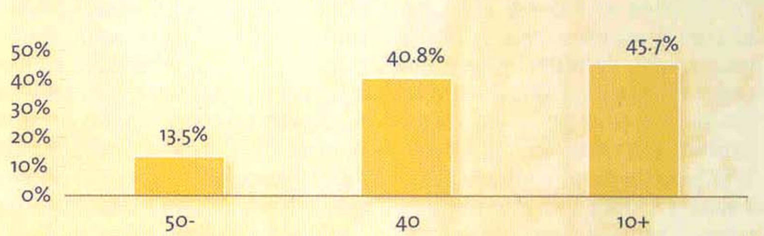
The languid pace of implementing social reforms has earned Brazil the unenviable title of "whale-country", in sharp contrast to the institutional agility of the so-called Asian tigers. If by size and inertia Brazil can be compared with a whale, in the field of social inequality, Brazil is be a beached whale. Our income disparity has remained high and stubbornly stagnant since such measurements started being made. In the interval between the 1960 and 2000 censuses, the published statistical measures of social conditions have consistently placed us among the world leaders in inequality. However, the latest editions of the PNAD have pointed to a reduction in this inequality. Is Brazil's whale really starting to "unbeach" itself?

If we look at economic fluctuations over the past 15 years from a perspective of income distribution, we see that there was little real change, either for better or worse, in both the honeymoon period just after the Real Plan finally established stability after virtually a generation of extreme inflation (1994-1996) and the period of external crises (1997-2001). In contrast, in the most recent period (2001-2003), we can see a movement toward less inequality. For example, the portion of national income held by the wealthiest 10% fell from 47.3% to 45.7% in only two years, a groundbreaking accomplishment in recent Brazilian social history.

In the period of transition to stability, unlike conventional wisdom has it, the currency reform's effect of reducing income disparity was relatively small. The line of research that originated the Real Plan and the stabilization plans that preceded it sought to cut inflation while more or less maintaining the income distribution status quo.

The URV phase just before instituting the Real Plan itself, a type of courtship before the actual marriage, had exactly this intention. The Real was conceived – successfully – to conquer inflation. The big gain in social welfare caused by the stabilization was not a fall in inequality, but rather an increase in individuals' income stability. This reduction in uncertainty only caused illusory effects of a better income distribution, but did improve the conditions to apply social policies.

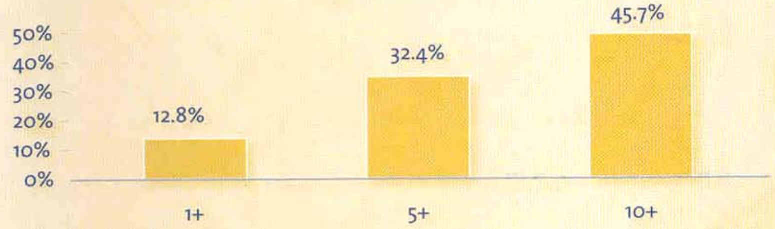
SHARE OF TOTAL INCOME IN 2003 – BRAZIL



Source: CPS/IBRE/FGV processing the raw data from the PNAD/IBGE

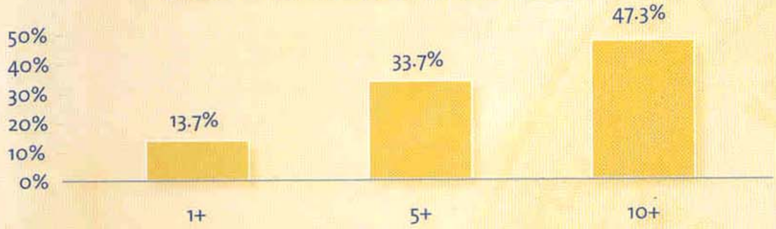
On the other hand, an analysis of income distribution in the period of external crises (1996-2001) is very heterogeneous. If one looks only at work income in the large metropolitan regions, it appears that this period was more severe. If analyzing all sources of income and geographical areas, which is a better measure of overall welfare, the crisis period appears much milder.

SHARE OF TOTAL INCOME IN 2003 – BRAZIL



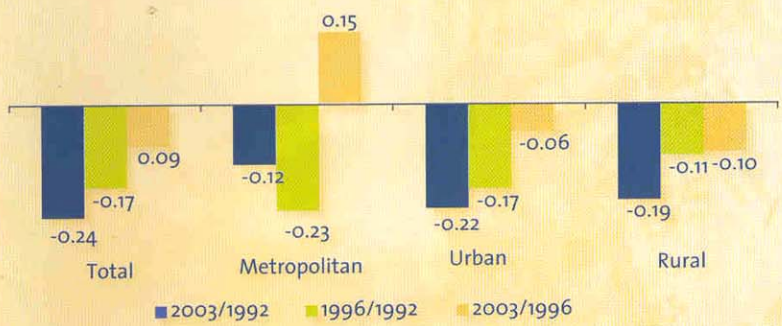
Source: CPS/IBRE/FGV processing raw date from the PNAD/IBGE

SHARE OF TOTAL INCOME IN 2001 – BRAZIL



Source: CPS/IBRE/FGV processing raw data from the PNAD/IBGE

RATE OF MISERY REDUCTION IN PERIODS
Rural. Urban and Metropolitan Areas



Source: CPS/IBRE/FGV processing raw data from the PNAD/IBGE.

METROPOLITAN CRISIS

In the period 1992-2003 we observe a systematic reduction in national misery (defined as individuals living on less than $108 per month, at prices in the greater São Paulo metropolitan region in October 2003, an amount considered the minimum necessary to meet a person's basic nutritional needs) fell from 35.87% of the population to 27.26%, an accumulated fall of 24%. This declining trend is observed even during the periods of external crisis and subsequent adjustments – from 1996 to 2003 it fell 9% and from 1992 to 1996, 17%. Metropolitan misery, after the honeymoon period of the Real Plan, has been increasing since 1995. Rural misery fell steadily in all the years of the series, even in periods of drought in the Northeast such as 1998 and 2001. Urban misery, in turn, follows a temporal pattern similar to that observed at the national level.

If we look at longer intervals, namely the period from 1992 to 2003, misery in metropolitan areas decreases less, only 12%. And this is only thanks to the 1992-1996 period, when misery went down 23%, because in the next period (1996-2003) it went back up by 15%. Rural areas benefited in both these periods: from 1992 to 1996 the misery index fell 11% and from 1996 to 2003 it fell another 10%.

Urban misery, in turn, closely followed the national pattern, being more stable in all periods analyzed. In the general computation, due to the expansion of mid-sized cities, urban misery fell nearly 22% in the period from 1992 to 2003.

SCENARIOS

We now look at perhaps the most accepted measure of inequality among analysts, the Gini index, which varies from zero to one – the higher the number is, the greater the society's income disparity. In other words, in a utopian situation where everyone gains exactly the same, the Gini index would be zero. At the opposite extreme, if a single individual concentrates all a society's income, the Gini index would be one. While the actual calculation of the Gini ratio is quite complex, it doesn't take a genius to understand the unacceptable result of 0.585 for Brazil: we are much nearer perfect inequality than perfect equality.

While high inequality is perhaps our greatest blight, this same inequality opens the way to implement a wide range of actions against misery. High inequality means that poverty can be reduced by redistribution of income or assets that generate wealth. For example, in India, an extremely poor but reasonably egalitarian country (Gini index of 0.29) the only solution to eradicate misery is growth. But in Brazil, policies against inequality are an important ally in the fight against poverty.

The proportion of people living in misery in Brazil would have fallen from 27.26% in 2003 to 26.56% in 2004, a decline of 2.6%, just with a rise in per capita income of 3% in those years. This is in line with the current rate of GDP growth, around 4.5% to 5% a year. If a yearly growth rate of 3% holds steady for four consecutive years, the proportion of people living below the misery level will fall to 24.16%, a drop of 11.39%. This will mean millions of Brazilians crossing the line to a more dignified existence if the country can sustain its current level of growth, something not seen since the so-called economic miracle years.

But the true social miracle would come if this growth were accompanied by some reduction in inequality as well. If an accumulated expansion of the economy of 12% came along with a fall of 0.011 in the Gini index (from 0.585 to 0.574), which is roughly what occurred between 2001 and 2003, the percentage of Brazilians living in indigence would decrease 16.86%, meaning their proportion would decline to 22.67%. In other words, 47.4 million poor people would shrink by 8 million. This would cause the Gini ratio to fall to 0.574, already the case in the state of Rio de Janeiro.

In reality, Brazil's poverty could still decline substantially even if the country stops growing. Just the reduction in the Gini index pointed out above would diminish the proportion of indigents by 6.42%. We can envision even more ambitious inequality reduction scenarios, such as convergence of the overall Brazilian figure to that observed in the state of Rio Grande do Sul. In this case, even without growth, misery would fall from 27.26% to 20.98% of the population, a decline of 23.04%. Now, if this trend to greater equality were also accompanied by accumulated growth of 12% in the next four years, only 17.61% of the people would remain in abject poverty, a fall of 35.42% from the figure for 2003.

The fundamental cause of Brazilian misery is unequal income distribution, and that is also where the solution lies. Cutting back inequality in the context of an economic boom is obviously more plausible than in an economic slump, when losses are being shared by all. The adoption of social targets would help fight misery. In this case, frequent monitoring is fundamental as a way to measure fulfillment of social commitments made to international organizations and Brazilian society.

MISERY – BRAZIL

Scenarios

Source: CPS/IBRE/FGV processing raw data from the PNAD/IBGE.
*Effect of reducing inequality (Gini falls 0.011 point) with economic growth of 3%

SCENARIOS ON MISERY

	Per Capita Household Income	% Miserable	Variation
Brasil 2003	379.78	27.26	
*Growth Effect**			
3%	391.17	26.56	-2.60%
12%	425.35	24.16	-11.39%
*Inequality Effect (RJ)***	379.78	25.51	-6.42%
*with growth**			
3%	391.17	24.92	-8.61%
12%	425.35	22.67	-16.86%
*Efeito Desigualdade (RS)****	379.78	20.98	-23.04%
*with growth**			
3%	391.17	20.29	-25.59%
12%	425.35	17.61	-35.42%

Source: CPS/IBRE/FGV processing raw data from the PNAD/IBGE. *Growth of per capita income. **We exchanged the inequality in Brazil as a whole for that in Rio de Janeiro in 2001 (Gini falls from 0.585 to 0.574). *** We exchanged the inequality in Brazil as a whole for that in Rio Grande do Sul (Gini fals from 0.585 to 0.535).