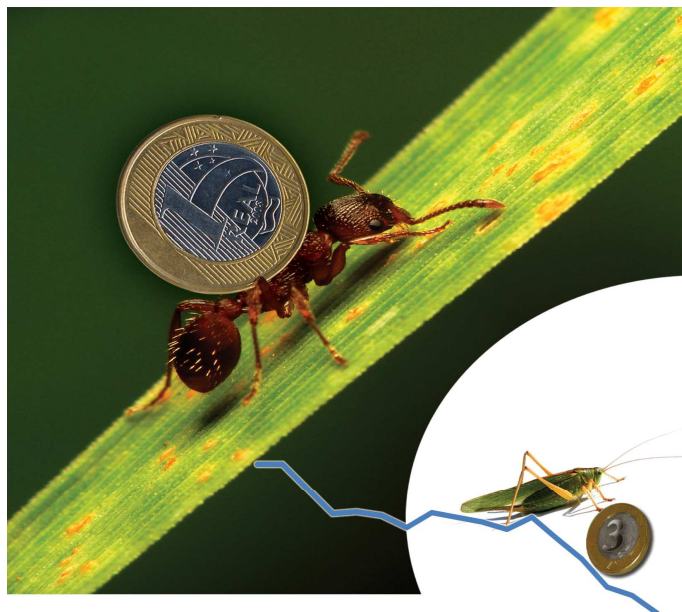




CONSUMERS, PRODUCERS AND
THE NEW MIDDLE CLASS:

*poverty, inequality and the
determinants of class
in Brazil*

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Consumers, Producers and the New Middle Class:

Poverty, Inequality and the Determinants of Class

Executive Summary

The French associate the blue, red and white of their flag to the ideals of their revolution: freedom, equality and fraternity. What attributes would you choose to relate to our green and yellow flag colors? I would say diversity and inequality. Inequality is a Brazilian feature that has remained unscathed through the centuries. Yellow from the extracted gold, initially by native Indians, then by Africans - the last in the Western hemisphere to be freed. We live in a rich and unequal country. Our diversity is in Brazil and in each Brazilian, having been compared to a boiling mixing pot of ethnicities, creeds and behaviours. In our pseudo-democracy, everyone has the same colour, as I say it, various shades of green¹. Green is the colour of the diversity in the mixed races – it is a secondary colour that results from the combination of yellow and blue, and would thus capture the Brazilian diversity.

Diversity and inequality are our marks, which stop us from seeing the palette of Brazilian colours. At each PNAD, Brazilian society has the opportunity to look at the colours and faces as one stares at the mirror; to know the hindrances and advances of the year that stays behind. PNAD data reflect the answers of people about themselves, true self-portraits. PNAD's expansion factors help to gauge the absolute size or the relative position of each social group among themselves and in relation to Brazil, keeping the original scale. Simultaneously to publicizing its rich collection of tables and analyses, IBGE releases the research's microdata with an annual sample of more than 380 thousand individual answers to a good questionnaire with over 100 questions asked with exactly the same structure every year in the last two decades. Beyond its

¹ Only that in Brazil the darker shades of green usually live in slums and can only get through the rear entrance of buildings inhabited by lighter shades of green. In France, diversity is a concern of a different nature, it is not uncommon to meet French people who say "No! Vive la France, I want to remain apart, to keep my culture". Brazilian diversity's green is within each one and not stuck in groups or primary colours.

transparency, the flexibility and precision of the large microdata sample help to portray the relations between many facets of Brazilian life: school, work, pensions, etc.; girls, blacks etc. For instance, as the school impacted on work or how work impacted on the income of families, etc.

Without entering virtually infinite possibilities to cross microdata, the question that remains in each PNAD is what we can conclude from the tables. Researchers, managers, journalists and ordinary citizens – all of us – are drowned in numbers!

The objective of this study is to build a brief profile of the Brazilian conditions from a range of PNAD information. The literature on social well-being seeks to synthesize the various aspects of reality for different people. The chapter on social indicators based on income translates data on salary, journey, occupation, unemployment, pensions, access to social programs, etc. into fewer numbers, each one with the capacity to portray a peculiar aspect of life in society, such as well-being level, inequality, poverty rate, economic class composition. A first effort is to condense information in order to transform it into practical knowledge about how much the Brazilians' wealth has grown or decreased. We recognize that the exercise is a simplification of reality whereby the richness of information and PNAD's colourful possibilities become black and white paintings. Roughly, it is worse than attaching values to certain artworks, as here we are talking about the lives of people – in the case, Brazilians.

Brazilian Income

The main feature of the approach used here is its level of disaggregation into four groups of income.

Class AB: according to the last PNAD, the share of people in class AB (household income above 4807 reais) grew 7% in the last year, which corresponds to 1.5 million entering the upper income group. In the last 5 years, 6 million people have ascended to this class that, in 2008, reaches 19,4 million people.

Class C: The same class that reached 37,56% of the Brazilian population in 2003, reached 49,22% in 2008, or 91 million people with an income between 1115 and 4807 reais monthly, the dominating class in terms of population size. This accumulated

growth of 31% in 5 years means in population terms 25,9 million Brazilian people who had not been and became class C in the last 5 years (5,3 million last year alone).

Class D: the proportion of people in class D is 24, 35% in 2008 reaching 45,3 million Brazilians with an income between 768 reais up to the lower limits of class C. In terms of trends, there has been a reduction of 0,9 million in one year or 3%, and 1.5 million if we consider the last five years.

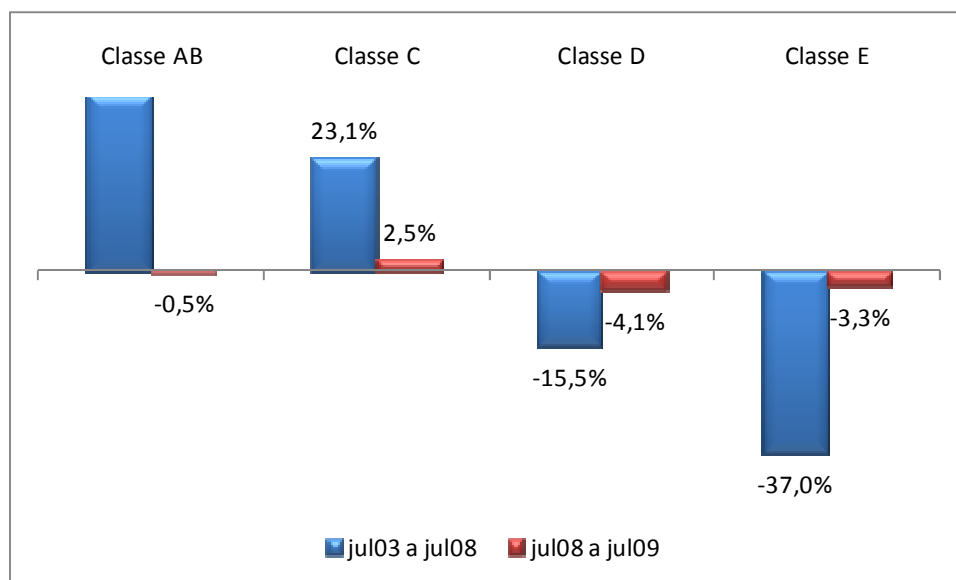
Class E: With a reduction of 12,27% in the last year, or the exit of 3,8 million people out of the lowest income group up to 768 reais monthly, the poverty level in our methodology. This movement corroborates a trend since the end of the 2003 recession, when poverty fell 43%, that is, around 19,4 million people have crossed the poverty line. As a result, 29,9 million poor people (16,02% of the population²) who would be instead 50 million had poverty not fallen in the last years.

Social Draw

Nine months after the crisis started, there is na already clearer vision about its effects in the Brazilian people's income in the six major metropolitan areas in the country. Income inequality underwent a serious deterioration in January, when part of last years' gains were lost, but it has now come back closer to its pre-crisis levels. Even class AB, that earns more than 4800 reais per month and who had lost more with the crisis (2,7% in January alone), is today only 0,5% below one year ago's levels (14,97% of the population is in class AB with 55% of the country's income). Class C is already in a positive situation with a 2,5% gain in 12 months (53,2% it is the dominating class in terms of population size). If this draw may be considered a good result in times of crisis, on the other hand, it hides a sudden halt of the previous improvements in the indicators: from July 2003 to July 2008, class AB grew 35,7%, class C increased 23,1% and income inequality dropped as it had never dropped before in the Brazilian statistical series. Looking on the bright side, 2008 PNAD must provide, despite the current crisis, a more or less faithful portrait of the living conditions in 2009.

² **With an income below** 137 reais monthly (greater São Paulo area prices or 145 reais at national average prices pondered by the population of each class).

Variation of Economic Classes Pre versus Post-Crisis



Source: CPS/FGV based on PME/IBGE microdata

Reasons for Change:

If something changed, the second struggle is to find out: why has it changed? How has it changed? These last questions suggest the two complementary lines of answers explored here, knowingly: the first one looks at the approximate determinants of the income distribution and the primary components of people's income, the role of pensions, social programs and work (and its components) in the various synthetic measures.

Decomposition of Income into different sources PNAD

Year	Income from all sources	Income from all jobs	Other private incomes	Public Transfers - BF*	Social Security minimum - MW*	Social Security above > MW*
2008 – R\$	592,12	450,29	12,86	12,73	28,05	88,2
2008 – % Composition	100%	76,05%	2,17%	2,15%	4,74%	14,90%
Annual growth rate 2003-08	5,26%	5,13%	2,62%	20,99%	6,64%	4,44%
Growth 2007-08	5,49%	4,5%	15,13%	30,83%	1,63%	7,68%

Source: CPS/FGV based on PNAD/ IBGE microdata.

Between 2003 and 2008, the average per capita income of Brazilians increased 5,26% in real terms (i.e., population growth and inflation have been discounted) going from 458 to 592 reais per month. Income sources that increased more were social

programs (20,99%) influenced by the expansion of the Family Grant, created in 2003. Next, came the share of pension income attached to the minimum wage (6,64%). The effects of minimum wage readjustments, as it increased more than 45% in the period, put a pressure on the basic value of benefits and the number of elderly, as a result of the population's aging process. Income from social security above the minimum amount grows less than the general income growth. It is worth pointing out that income from work has had an average increase of 5,13% per year, which grants a sustainable support for the living conditions beyond the official income transfers. Income from work corresponds to 76% of the average income perceived by the Brazilians and 75% of the income gain observed has come from there.

In the last year, the growth of per capita income from work and pensions bound with the minimum wage is a little lower, and social programs reach 30,8%. In any case, in both periods – although there has been a strong increase in income from social programs and pensions tied to the minimum wage – the share of income from work remains close to the impressive growth in income in this phase of boom.

Composition of Income per Economic class

In the period from 2003 to 2008, we noticed that the share of income associated with social programs, such as the Family Grant, doubled. This corresponds to the poor groups by the national average line of CPS – after the increases announced by the government and the new entry criterion for the Family Grant, the share of these programs in the respective incomes increased from 4,9% to 16,3%.

The analysis of the participation of different income types per economic class may be useful to assess the prospective impacts of different public policy tools on income distribution, such as for example the measures adopted with the external crisis context in September 2008, namely:

Increases in the Family Grant and other programs not related to the social security tend to benefit predominantly class E that has 16,25% of its earnings from this type of income.

It is interesting to separate income from social security benefits as individual earnings up to one minimum wage and benefits above this minimum, because distinguishing among such increases was stressed in 1998. The major beneficiary of the increase in the social security minimum (basic) benefit is class D, with 12,66% of

income tied to it. Finally, the increase in pensions above this minimum value benefits above all class AB as 18,94% of its earnings derive from this source. This measure is being discussed today.

Composition by type of income sources

Classes	Ind benefits Soc Security >MIVS	Ind benefits Social Sec<=SM	Public Transfers BF	Income from work	Benefits Total social security
2008					
Total	14,90%	4,74%	2,15%	76,05%	19,63%
Class E	1,18%	9,47%	16,25%	71,25%	10,65%
Class D	4,40%	12,66%	5,46%	76,35%	17,06%
Class C	13,48%	7,25%	1,38%	76,40%	20,73%
Class AB	18,94%	0,44%	1,68%	75,85%	19,39%
2003					
Total	15,50%	4,44%	1,07%	76,52%	19,93%
Class E	1,98%	12,74%	4,87%	77,85%	14,71%
Class D	6,23%	12,37%	1,36%	78,62%	18,60%
Class C	15,53%	5,39%	0,58%	76,57%	20,91%
Class AB	19,59%	0,25%	1,10%	75,74%	19,84%

Source: CPS/FGV based on PNAD/IBGE microdata

Producers and Consumers

The second Outlook focuses on a less direct, but more lasting, relationship between assets stocks and per capita income flows. This helps to understand how people transform their income into current and past living standards and consumption potential, and also to capture the deep determinant factors that boost present, and possibly future, income levels.

The research innovates by exploring the range of PNAD information on the evolution of families' asset stocks, substantiating a wide take on the nature of the acquired living Standards. We translate such rich data into economic classes, under two perspectives: the consumer's and the producer's. The first view identifies the consumption potential of families through their access to consumer goods (TV, freezer, etc.) access to public services (waste, sewerage), housing conditions (finance, number of toilets) and type of family. In the perspective of the producer, we identify the family's potential of income generation through the productive inclusion and educational level of the different members of the household, as well as investments in physical capital (public and private pension, use of ICT), social capital (union; family structure) and human capital (children attending public and private schools), so as to depict the sustainability of their income. Comparing these two dimensions of consumers and producers will, in the same way as La Fontaine's fable, allow us to distinguish the

ants and the grasshoppers among Brazilians. Long story short, the income generating capacity of Brazilians grew in our synthetic index 28,32%, whereas our synthetic index of consumption potential increased 14,98%.

Grasshoppers and Ants

Through PNAD, we may capture the evolution of the various aspects of the Brazilian society through time, as well as analyze its distribution among different groups defined by income, spatial or social-demographic features. Nevertheless, PNAD does not allow a vision of the difference between Brazil and other countries. Additionally, PNAD is above all a survey that provides objective variable measures as informed by the people. If we want to really know particular Brazilian aspects vis à vis other nations we must turn to international data. Subjective living condition measures, such as those explored in the emerging literature on happiness is not yet part of the IBGE tradition. Based on international microdata for 132 countries, we contrasted Brazilians' take on their present and future and their countries'. Brazilians believe themselves to be the happiest people in the world five years from now. The questions asked in 132 countries in the world was: "from 0 to 10, where do you expect to be five years from now?". No other country beats Brazil, as our average is 8,78, followed by Denmark, Ireland, Usain Bolt's Jamaica. The last one in the ranking is Zimbabwe with 2,79 of future happiness. And this same research, when asking Brazilians to give a grade to the country five years from now, the average mark is 6,84, well below Ireland (8,14) but above Zimbabwe (2,79). We are number 43 among 128 countries in the world ranking. The result is that we are ninth in 128 countries – revealing a dissonance. How can a country be so good to each one, and not be a good country to all?

This dissonance may also be explained in the terms of La Fontaine's fable: we are more grasshoppers than ants, hoping for a better future. But contrary to ants, we are not the best suited to live collectively. The high rates of inflation, inequality and crimes in Brazil reflect this aspect; but the good news is that we are improving. Just as in the fable, as a result of optimism and individualism, however we may not prepare ourselves for the future as a nation.

Dissonance between Future expectations in 5 years (Individuals and country)

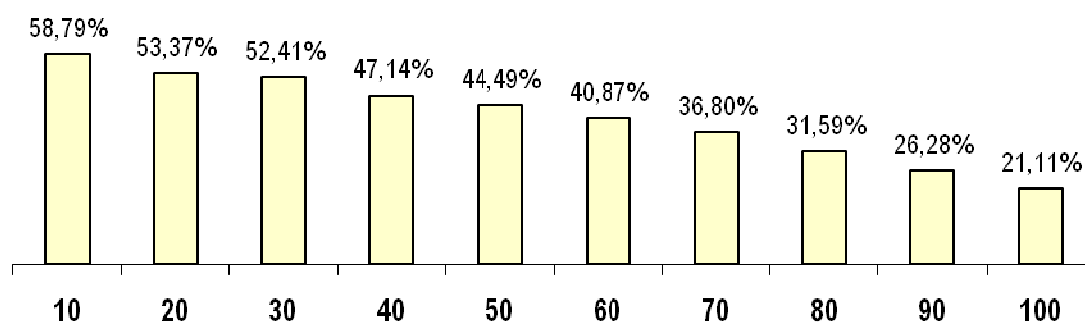
Country		Country		indivíduo - Country	
Country	Country	Country	ind	Country	
37 newzealand	6,98	1 <i>zzzbrazil</i>	8,78	1 puerto rico	3,45
38 canada	6,97	2 venezuela	8,52	2 trinidad & tobago	2,82
39 kuwait	6,96	3 denmark	8,51	3 jamaica	2,58
40 benin	6,9	4 ireland	8,32	4 honduras	2,46
41 colombia	6,86	5 jamaica	8,25	5 france	2,36
42 burundi	6,86	6 united states	8,14	6 netherlands	2,13
43 <i>zzzbrazil</i>	6,84	7 canada	8,14	7 united kingdom	2,06
44 thailand	6,84	8 newzealand	8,14	8 united states	2,01
45 bolivia	6,83	9 australia	8,06	9 <i>zzzbrazil</i>	1,94
46 kosovo	6,74	10 panama	8,05	10 italy	1,79
47 switzerland	6,72	11 israel	8,03	11 costa rica	1,77
48 uruguay	6,71	12 belgium	7,98	12 germany	1,75
49 zambia	6,62	13 sweden	7,97	13 sweden	1,69
50 nepal	6,62	14 colombia	7,97	14 belgium	1,58
51 estonia	6,61	15 norway	7,94	15 australia	1,57
52 tanzania	6,56	16 united arab emirates	7,94	16 israel	1,56
53 niger	6,54	17 nigeria	7,89	17 poland	1,49
54 sri lanka	6,52	18 finland	7,86	18 el salvador	1,49
55 afghanistan	6,51	19 costa rica	7,82	19 guatemala	1,44
56 togo	6,5	20 switzerland	7,82	20 ethiopia	1,33

Source: CPS/FGV processing GALLUP 2006microdata

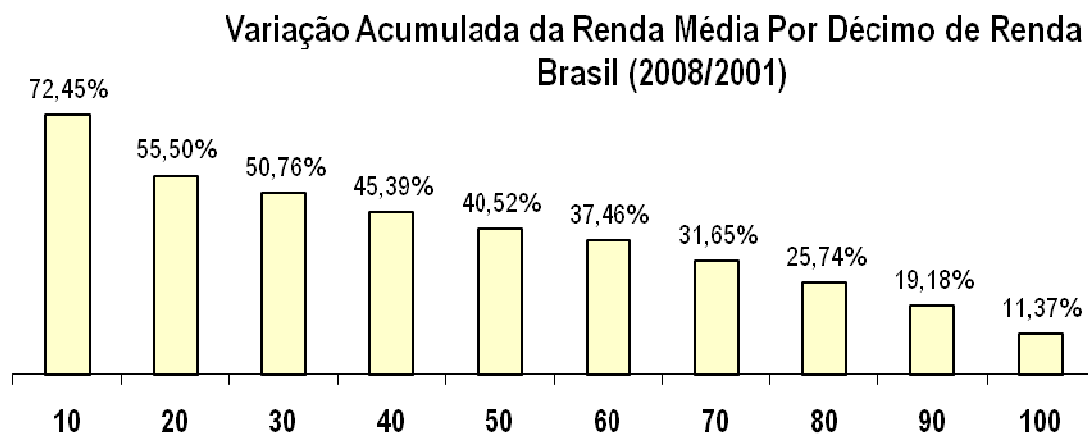
Income distribution

We present next the accumulated income gain per decile of population, starting with the poorest groups between 2003 and 2008. The growth rate decreases as we move from the first (58,8%) to the last decile (21,1%).

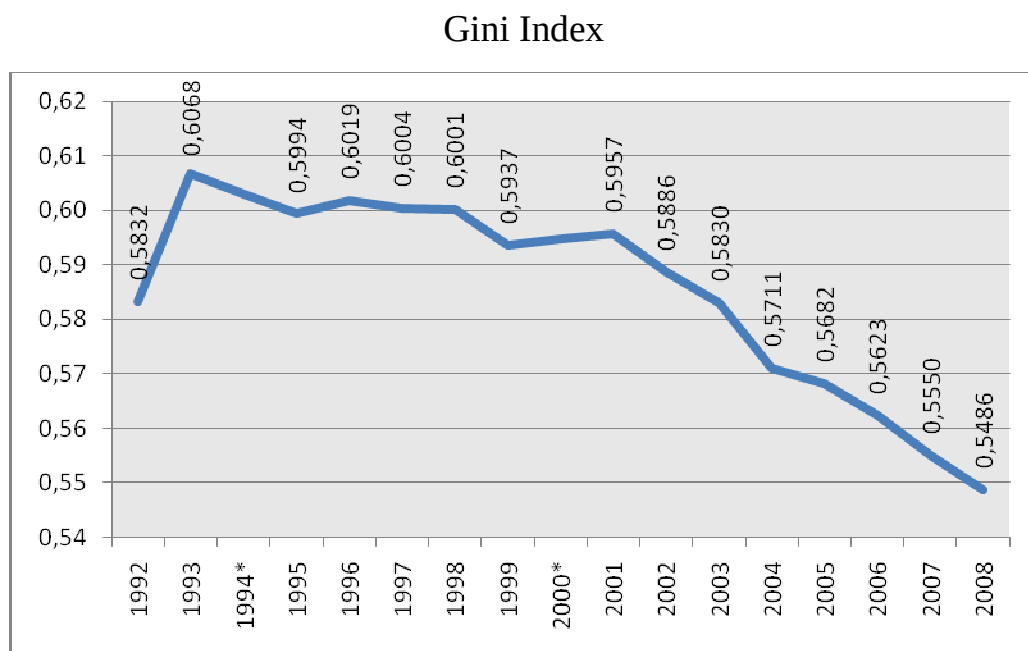
Variação Acumulada da Renda Média - Brasil (2008/2003)



Although the growth recovery period only began after the end of the 2003 recession, inequality had fallen beforehand, as the graph below shows (analogous to the previous one plus the years 2001-2002)



The redistributive movement in terms of the Gini index is translated in the graph below. Gini is the most popular inequality measure applied to the most disseminated concept of well-being in the literature, that is household per capita income, including null incomes.



Source: CPS/FGV based on PNAD/IBGE microdata

Gini-measured inequality drops to 0,5486 in 2008, a decrease of -1,15% reaching a similar speed to that observed in the decade of inequality reduction:

Evolution Panorama: Social Measures based on Per Capita income

Given its national and annual nature, PNAD enables the monitoring of the evolution of various social indicators based on income. The release of PNAD data is the moment when society faces a sort of mirror, sees its face and assess its own advances and obstacles. The panorama available in the research website presents a time evolution of different indicators such as poverty, economic classes, income, inequality and education (among other indicators), since the beginning of the 1990s. There follows the group of variables available for analysis.

Each one of these indicators may be analyzed for the overall population or by open sub-groups: i) sociodemographic features such as sex, age, years of schooling, race, position in the household; ii) characteristics of the producer, including job position, social security tax, education and access to digital assets; iii) characteristics of the consumer such as access to consumer goods and services; iv) spatial features such as housing, area (metropolitan, non-metropolitan urban and rural), states and, innovatively, capitals and peripheries:

Social Measures based on Per Capita Income
Evolution Panorama - Brazil - 1992 - 2008

Theme: Main

Indicator: % Class C

Generate tables
Clear selection
Select all

Social-demographic Characteristics

☒ Total population

☐ Sex

☐ Age group

☐ Ethnic background

☐ Position in the household

☐ Maternity

☐ Immigration

Income

☐ Has income from all jobs

☐ Has income from social security system

☐ Has income from other sources

☐ Has income from all sources

☐ Has income from social programs

☐ Has income from main job

☐ Economic class

Producer's Characteristics

☐ Goes to private school

☐ Attends or has attended to college

☐ Company size

http://www.fgv.br/ibrecps/RET4/CPC_evolucao_temporal/index-eng.htm

Poverty, Growth and Inequality Scenarios

The proportion of poor people in Brazil, according to our estimates on the 2008 poverty line is 16,02%. Initially, in a neutral scenario in terms of distribution, if national per capita income grows 2,6% per year in the next seven years, which would correspond to 4% a year of total income growth for the overall population growth, poverty would drop to 12,43%, a decrease of 22,38%. This reduction would be even higher if the mentioned accumulated expansion of 20% was combined with a decrease in the Gini index, as it was similarly observed in the last seven years. This would equate the income distribution of Rio Grande do Sul in 2007. In this case, poverty would drop 41,22%, leading to a poverty rate below the two-digit mark: 9,45% of the Brazilian population would be considered extremely poor. However, even with a null per capita income growth, if inequality fell to Rio Grande do Sul levels, gains would still be reasonable – for the poor, of course – poverty rate would drop 18,58% in the period, reaching 13,04% of the population. This decrease in poverty is enough to overcome the pace of the first Millennium Development Goal of 50% decrease in 25 years, dropping 52% in this period. This note illustrates the prospective and retrospective role played by the reduction in income inequality within the Brazilian context.

How do we reduce inequality? Once more, the present decade can show us the way by applying the decomposition methodology of the Gini variation³ to the period 2001-2008. Income from work explains 66,86% of the inequality reduction, then come the social programs, in particular the Family Grant and its precedent School Grant, which explain 17% of the inequality reduction, while the social security benefits explain 15,72% of the income de-concentration; remaining incomes account for less than 1%.

It is desirable that the analysis considers not only the impacts of different income sources, particularly transfers from the Brazilian state, on inequality displacements, and the public resources as well.

³ Hoffman 2006 and Soares 2006 apply this methodology to Brazilian data at the beginning of the decade. Kakwani, Neri and Son 2005 and Barros et al. 2006 apply other methodologies to the same data.