

THE LITTLE BIG DECADE
Crisis, Scenarios and the

New middle
Class

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Centro de Políticas Sociais

The Little Big Decade: Crisis, Scenarios and the New Middle Class

**Centro de Políticas Sociais
Fundação Getulio Vargas**

(CPS/FGV)

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The little big decade

Crisis, Scenario and the New Middle Class

Executive Summary

Tsunami or ripple? That is the question that many have asked themselves in the last 16 months regarding the effects in Brazil of the international crisis of September 2008. After all, what was the impact of the crisis on the purse of Brazilians? What is the complete balance up to December 2009 of the social indicators based on income? Has poverty and the inequality have recovered from the undertow of January 2009? And the new Brazilian middle class continued to grow, stagnated or went under? And the individual risk of falling from the higher class has returned to the pre-crisis standards? Who suffered a greater loss with the crisis? Was it those of the manufacturing sector, the ones with a higher education or those that live in the outskirts of the big cities? After the external storm what can be expected of 2010?. And in the longer horizon period up to 2014 will we repeat the social conquests of the 2003 up to 2008 period? Are we facing the prospects of a new little big decade?

The present work is an epilog of a series of researches titled “chronicle of an announced crisis” that monitored the impacts of the external shocks through the microdata of the PME/IBGE for the six major metropolitan Brazilian regions. The initial chapter that was at the origin of the series, showed that up to December 2008 there were no signs of impacts in our series. The second chronicle illustrated the critical period of the crisis: the undertow of January 2009 when the crisis arrived strongly, eroding part of the previous social gains. Later studies showed more of the same, up to August: a trend of recovery of the majority of the social indicators. But now at the end of the Gregorian calendar of 2009, the year of the crisis, where are we in fact? And where are we going to? In the second part of the research we leave the rear-view mirror of statistical history to venture into the mist of the future facing Brazil and the Brazilians. We worked with national consistency scenarios up to 2014, traced from the PNAD/IBGE. We go beyond our traditional poverty projections bound to the first

Millennium Development Goal (MDG), encompassing the classes (E, D, C and AB) composition and its close determinations, like mean growth and income inequality.

Part I – Scenarios of economic classes growth

1. Little big decade

We originally used the period 2003-08, here called little big decade, as the basis for the post-crisis 2010 to 2104 the next section.

Beginning of year, time to look back and forth, making statements and projections. For 2010, this year gained an air of early decade and epilogue of the Lula government and is the years after the crisis I (DC). Twelve months after September 15, 2008, virtually all series indicators of labor and economic classes available in Brazil returned to the same pre-crisis point, that is, if not regressed, did not advance. If the comparison is in relation to other countries, the stagnation in Brazil 2009 is the envy of foreign eyes, except for China, India and Korea. But not to feel an ounce of pride, in comparison with the period 2003 to 2008, here called little big decade. We draw these forecasts for the next five years by extrapolating what happened in those five years from 2003 to 2008 when major changes in measures of welfare based on income occurred, the result of a rare combination in Brazilian lands of sustained growth with reduced inequality.

Decades

The past decade was the period of reduction of inequality, as well as the former was stabilization. Is the new decade the one of quality of education?

Before turning into the future, let's unravel the past in the light of the analysis of successive decades. The 1960 and 1970 were those of the Economic Miracle, growth but of dictatorship. In the seventies there was brutal in terms of poverty that fell from 67% to 39%, but brought in its wake, a demand for democracy, which characterizes the next decade. The eighties, the time of democratization, the main achievement of the time, even for us the economists. The decade ending in 1989, paradigmatically our records for inflation and inequality, that somehow punctuate the next decade two

decades. The eighties was also the instability of the institutional inflation and income teaching that relearn to democracy generates lost decade in the economy.

The 1990 was stabilization. In 1994, Fernando Henrique aided by his faithful squire stuck the spear in the heart of the dragon of inflation. From there we started – the first person plural – to plan the future. Away from uncertainty and monetary illusions we have a real calendar. The revolution of the president with the name of the prince is not royalty, but the sense of reality brought about by the currency stable. From this reality shock, we begin to devise an educational agenda, to put more intensely children in school, we began to measure the performance of children, SAEB in 1995 and, somehow, these two revolutions, inflation and school, integrated people that went through school started to enter the labor market and as we redistribute a stable currency through a program of income transfer, inequality began to fall. After recession of 2003, formal employment has blossomed again. Is the new decade the one of quality of education? Since 2007, that compasses both the Ministry of Education and civil society through the Index of Development of Basic Education (IDEB) and Education for All movement point to the north of the quality of education. Goals are forward-looking force by early next decade in 2021, so that two centuries of independence for Brazil be celebrated. Objective goals are drawn from school proficiency tests that capture the quality of education perceived by children, without voice or vote, in addition to short-termism of the mandate of the mandates of politicians. What is the goal? Brazil has an initial note of 3,8, -from 0 to 10- the goal is to become 6 by 2021. 6 is the average of the OECD today. We want to turn in 2021, which the OECD is today. Note 6 is also the average of private school in Brazil, that is the real “Belindia” for private school where who has money places the son, the average is 6, whilst in public school the average is 3,6. The goals are central to the agenda of the generation of economists to which I belong, to revolutionize quality education in the next decade.

Measures

The cumulative difference in five years between PNAD income and GDP was 8.8 percentage points. This represents more than two years in five years.

The key element in shaping the future of all classes A to E is the behavior of inequality, the Brazilian “jabuticaba” (a fruit that only grows in Brazil).

Before going further into further uncertainty, we must face the uncertainties of previous uncertainties. The magnitude of the resumption of growth in the period 2003-2008 depends crucially on database used in the optics of the national accounts and its most popular product, GDP. Even after the successive upward revision, we see 3,78% on a per capita per annum rate of more modest expansion of the National Household Sample Survey (PNAD), which is 5,26% per year also cashing growth population and inflation. The cumulative difference in five years between PNAD income and GDP was 8,8%. This represents more than two years in five years. If we use these rates as part of an exercise in futurology more elastic than 25 years, the cumulative difference in growth would be 108% per capita. During a 25 years course the per capita would have grown 153% by the GDP scenario and 261% by the PNAD scenario. It is true that the discrepancy between these rates tend to fade over time. For example, in the period 1995 to 2008 the cumulative difference is 2,13% in favor of the GDP. Now the question is: there being adjustments in the coming years what pulls what: the GDP pulls PNAD down or or PNAD pulls GDP upwards?

The committee report led by Amartya Sen and Joseph Stiglitz released in September 2009 noted strong difference between household surveys and the GDP figures around the world, with growth rates of GDP generally above. The report argues for the use of household surveys as a measure of performance of a given society. Another advantage of PNAD is to look at the distribution of the fruits of growth. The key element in shaping the future is the behavior of inequality, the Brazilian real jabuticaba. The first decade of the twentieth century has brought us, year after year, falling income inequality, that we use as parameter

2. Scenario Consistency

The 2010 to 2014 poverty would fall 50% and class AB 50%, 14,5 million people out of poverty and 36.1 million would join the ABC classes.

Given the outcome of the crisis and the period of boom years of social previous history to it, what that will be in the coming years? We will initially focus on the period 2003-08, using it as a basis for the scenario of post crisis growth from 2010 to 2014. Now, how this would be a reasonable prospect of the future based on the past? The analysis by income source shows an increase in labor income in the period 2003-08 as strong as the other sources of income, suggesting some sustainability of the prior history of growth with redistribution, interrupted but not reversed by the crisis. The trend of the series of years of study, fundamental for the literature for the growth and inequality support both on dispersion and the continuing trend of improvement. In this regards one must remember the problem of quality education – here represent opportunities to advance, that is what matters, when it comes to growth rates. Today there are benchmarks of proficiency in public schools. The possibility of jumping toward the border of a more reasonable society exemplified by the fall in income inequality since 2001, and perhaps the future quality education is the basis for optimism conditioning of this article. We will focus initially on a scenario of longer term ended in 2014. Protruding growth and reduced inequality in the period 2003-08. This scenario can be measured using in its approximation inequality observed in Espirito Santo (an estate) in 2008. In this frame work it is possible to obtain a reduction of poverty by half from 50,32% of today's level, that is from 16,02% of the population in 2008 to 7,96% in 2015. However, 2014 is the day before the end of the millennium goals. We have fulfilled the first millennium goal of making poverty dropped by half in half the time. That means carry it again in five years instead of 25 years. The consequence of this movement in terms of other classes is the following: drop the class D of 18,28% (from 23,35% to 19,9%) increase in class C 14,75% (from 39,2% to 56,48%) and proportional increase 50,3% in class AB (10,48% to 15,66%) of the population. That is, the promising scenario shows that poverty fell by half, the class AB increases by 50%. In absolute terms, 14,5 million people got out of poverty counting the additional 10 million in population anticipated from 2008 until 2014 when the population reaches 199.5 million people. The union of classes ABC would be incremented, and approximately 36,1 million Brazilians incorporated to the consumers market.

Part II: Chronicle of the Classes and Class Composition

1. 2009: Crisis and the 360 Degrees Revolution

Ended 2009, poverty, the new middle class and its determining factors, inequality and income average recovered from the undertow of January, returning to the pre-crisis peak.

Economic Classes

The ABC classes in December 2009 were at the historical record of 69,27% despite the fact that its components individually were not at the apex.

The difference of the ABC class is negligible, 0,1% compared to the second best of the series, 69,34% of December 2008.

Sixteen month after the arrival of the crisis there is already a clearer vision of its effects in the purse of the Brazilian in the six largest metropolis of his country. We start by the composition of the Brazilian society in terms of economic classes, based on per capita household income between the ages of 15 to 40 years. Even of those of the AB classes families earn household incomes of more than R\$480 per month in total terms, that had suffered bigger losses during the crisis (-2,7% in January, having started their losses already in September 2008 after reaching its historical apex of 15,72% in August 2008) is 2% above the one year ago index. Today 15,63% of the population is in the AB classes, compared to 15,33% in December 2008. The C class, immediately under the upper class (total household income from R\$1115 and R\$4808) had not been hit until the January 2009 hangover. Despite the fact that the C class is in the second highest point of the monthly series with 53,58% of the population, in December 2009 has a negative balance of -0,4% compared to December 2008 its historical apex of 53,72%. Curiously the sum of classes ABC is at its highest level in December 2009 with 69,21%, despite its components not being individually at its peak. However, the difference is a trifling 0,1% compared to the series second best point, the 69,14% of December 2008 our other reference point.

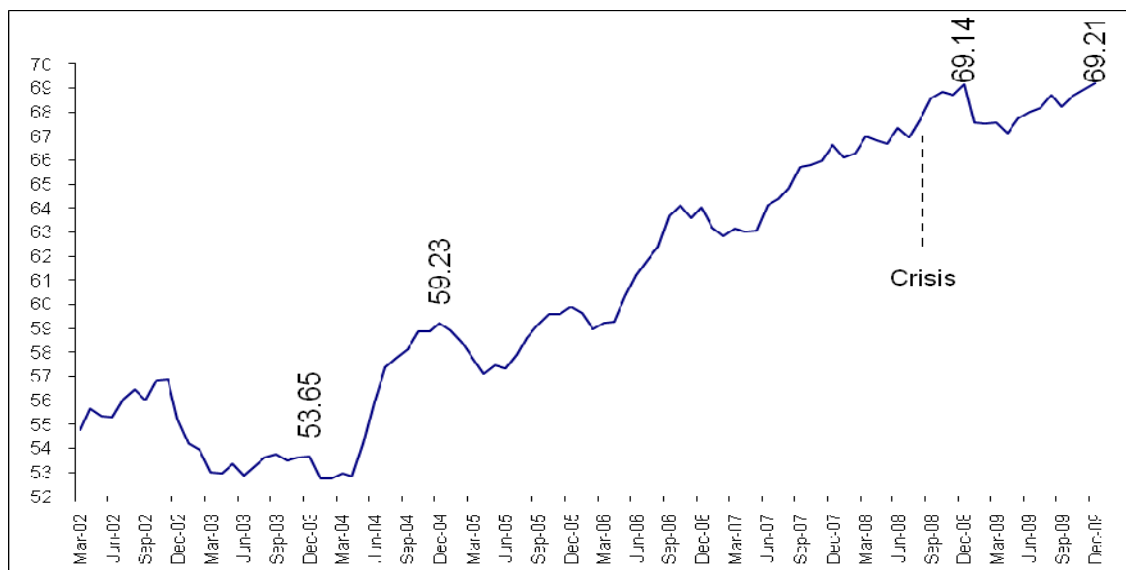
Economic Classes – 6 main Brazilian metropolis

	Class ABC	Class AB	Class C	Class D	Class E
dec/02	55.22	12.00	43.22	15.24	29.54
dec/03	53.65	10.66	42.99	16.41	29.95
dec/04	59.23	11.66	47.57	15.50	25.27
dec/05	59.90	13.18	46.72	16.60	23.50
dec/06	64.05	14.07	49.98	14.86	21.09
dec/07	66.64	14.76	51.88	14.14	19.22
aug/08	67.69	15.72	51.97	13.57	18.74
sep/08	68.58	15.43	53.15	13.52	17.90
oct/08	68.85	15.64	53.21	13.31	17.84
nov/08	68.72	15.35	53.37	13.47	17.82
dec/08	69.14	15.33	53.81	13.18	17.68
jan/09	67.55	14.91	52.64	13.58	18.87
feb/09	67.51	14.84	52.67	13.67	18.82
mar/09	67.55	15.03	52.52	13.75	18.70
apr/09	67.10	14.38	52.72	13.97	18.92
may/09	67.74	14.40	53.34	13.67	18.60
jun/09	67.98	14.79	53.19	13.70	18.32
jul/09	68.17	14.97	53.20	13.51	18.32
aug/09	68.71	15.34	53.37	13.45	17.84
sep/09	68.23	15.70	52.53	13.66	18.10
oct/09	68.67	15.52	53.15	13.71	17.62
nov/09	68.91	15.48	53.43	13.86	17.23
dec/09	69.21	15.63	53.58	13.37	17.42

Source: CPS/FGV from the PME/IBGE micro-data

The following tables shows the month by month trajectory of ABC classes until it reaches its historical peak in December 2009, but not much higher than December 2008

Variation of the Economic Class (ABC) (%)



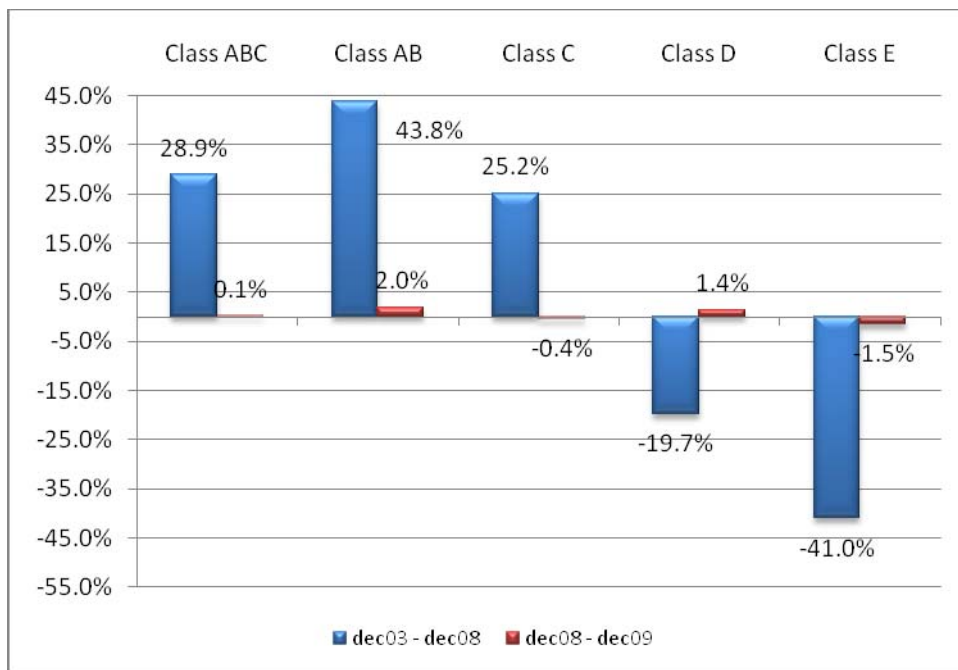
Source: CPS/FGV from the PME/IBGE micro-data

In the text charts are shown covering annual averages of the several years. Preferably the analysis is centered on December tables, being the most recent indicative of the estates of the economic classes as well as to avoid the “carry-over effects” implicit in

averages that make the time of changes obscure. The main text also presents the standard average of the months for several years that are complementary to the ones presented in the text,

If the maintenance of the “*status quo*” of income distribution in December can be considered a good result in a period of crisis. On the other hand, it hides a sudden stop of the previous improvement of the indicators: from December 2003 up to December 2008, the AB classes grew 43,8%, the C class grew 25,2%, the conjunction of them – ABC classes – grew 28,9%. The graph below synthesizes the observed changes of all economic classes in the comparison of December 2009 with December 2008 and its relation to the start of the expansionary cycle in December 2003.

Variation of the Economic Classes % Pre versus Post-Crisis



Source: CPS/FGV from the PME/IBGE micro-data

Poverty (Class E)

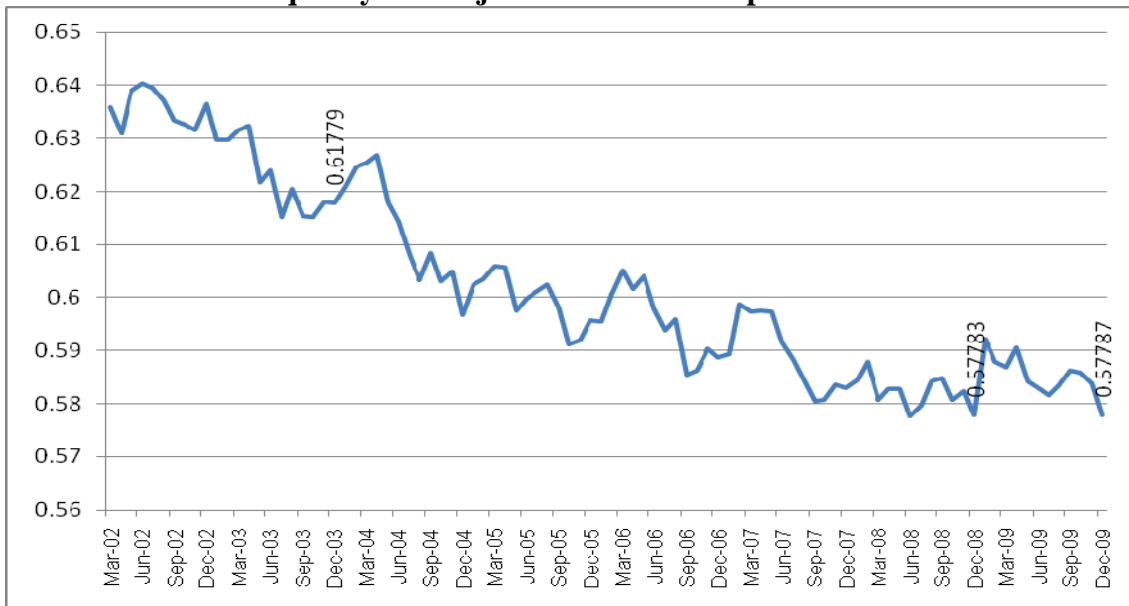
Poverty declined 41% from December 2003 to 2008 and declines a further 1,5% from December 2008 to 2009, when it reaches 17,42% of the population.

Looking at the other extreme of the economic classes, the E class in our methodology is the equivalent to the set of poor individuals. In our methodology the E class analysis with a total household income of up to R\$804 is the same as the traditional analysis of the poor. The proportion declined 41% from December 2003 up to 2008, declines a further 1,5% from the previous year with the last point in December 2009, when it reaches 17,42%. Once again, the 6,7% increase in the poverty rate observed from 2008 up to 2009 was reverted as 2009 went by, resulting in a 1,5% decline, that perhaps is the best positive result in this nearly always equivalent points in December of the last two years.

Inequality

The Gini index starts from historical low in December 2008 (0,5778), recovers from the worsening of January 2009 (when it increases 2,5%), coming back to 0,5779 in December 2009.

**Gini Index – Per Capita Household Income
Population between 15 and 60 years
Labor Income Inequality – 6 Major Brazilian Metropolis – Gini's Index Levels**



Source: CPS/FGV from the PME/IBGE micro-data

**Gini Index – Household Income Per Capita
Population between 15 and 60 years**

	Per Capita	Individual
dec/02	0.6317	0.7457
dec/03	0.6180	0.7322
dec/04	0.6049	0.7161
dec/05	0.5920	0.7059
dec/06	0.5904	0.6998
dec/07	0.5836	0.6897
aug/08	0.5843	0.6867
sep/08	0.5848	0.6853
oct/08	0.5808	0.6804
nov/08	0.5824	0.6837
dec/08	0.5778	0.6823
jan/09	0.5922	0.6979
feb/09	0.5878	0.6927
mar/09	0.5870	0.6916
apr/09	0.5907	0.6922
may/09	0.5843	0.6879
jun/09	0.5830	0.6845
jul/09	0.5815	0.6838
aug/09	0.5834	0.6847
sep/09	0.5863	0.6880
oct/09	0.5859	0.6878
nov/09	0.5838	0.6852
dec/09	0.5779	0.6796

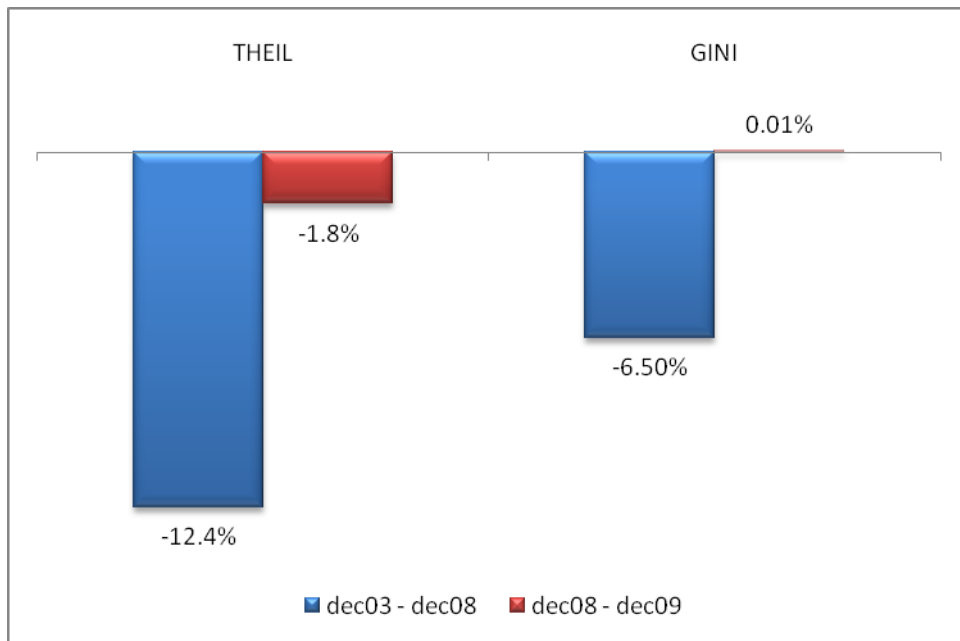
Variation

dec03 - dec08	-6.50%	-6.81%
dec08 - dec09	0.01%	-0.39%
sep08 - dec08	-1.2%	-0.4%
dec08 - jan09	2.5%	2.3%
jan09 a sep09	-1.0%	-1.4%
oct09 - dec09	-1.4%	-1.2%

Source: CPS/FGV from the PME/IBGE micro-data

In terms of variation, the accumulated growth of per capita income rate from the December 2003 and December 2009 period, hence already discounting the population growth, is of 36,3%, that is 5,3% per annum. If we isolate two distinct moments, the first being up to December 2008, we can observe the accumulated income is growth is trifle superior (36,8%). Therefore, between December 2008 and December 2009, a slight -0,4% reduction is shown, once again near the last year constant, configuring a stoppage in the previous advancements, but not a regression.

Gini's Index Variations



Source: CPS/FGV from the PME/IBGE micro-data

The changes in the structure of economic classes occurred in this period is due to changes in the near determinants , i.e. average and inequality of per capita income. Starting from the latter the inequality measured by the Gini index, that was at the minimum value in December 2008 (0,5778) in January 2009 recovers from the observed deterioration (when increases 2,5%) with declines in the opposite direction reaching in December 2009 in practice the same value of the previous year (0,5779). The Theil inequality index that is more sensitive to changes in the lower end of the distribution shows a slightly different movement being of the last December the lesser level of the historical series. All the indicators of inequality show a strong deterioration in January followed by an opposite movement in the opposite direction in the following months.

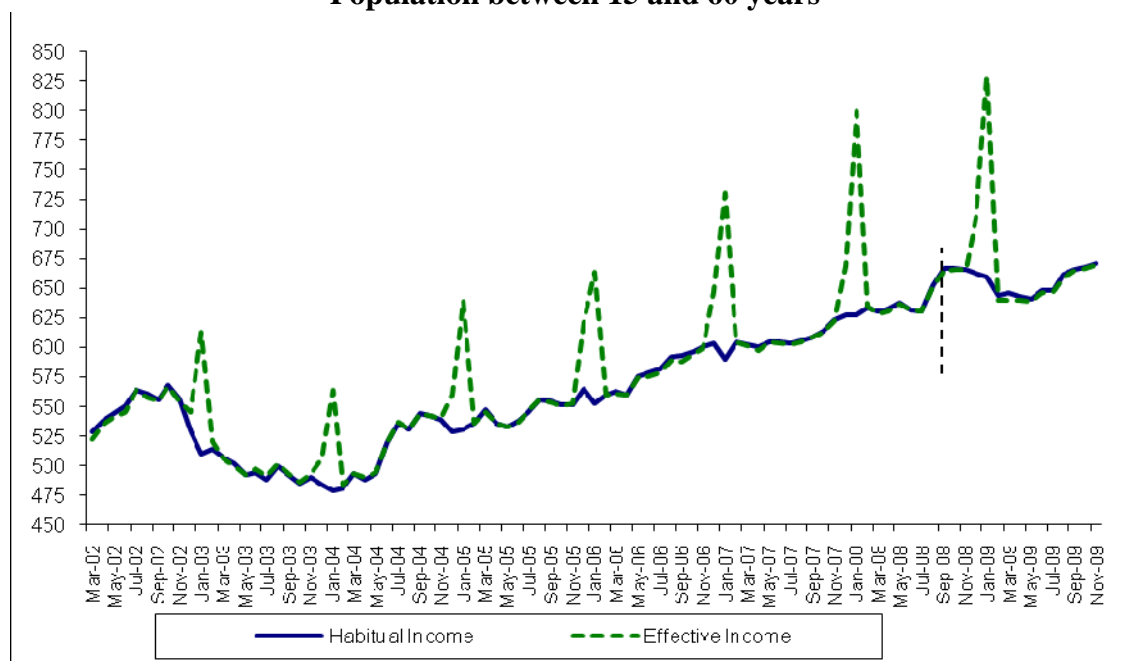
Mean Income

Drop of 0,4% of mean income between 2008 and 2009, again near the constant, a sudden stoppage of previous advancements, but not a retrocession.

The habitual or normal concept smoothes transitory income fluctuations, like the one that occurs from the thirteen salary, vacation bonus and extra working hours. The

concept of effective income also researched by the PME, shows remarkable seasonal fluctuation in the elapsing of each year as is shown by the graphs, but apart from these peaks, the data series show that they are relatively close¹. In this task we opted to work with the habitual income concept, as it eliminates the erratic fluctuations that distort upwards the mobility measures that will be discussed further along. An advantage of this concept is that is also used by the PNAD, allowing direct comparison with the results with the main data basis of the Brazilian household surveys system.

Per Capita Household Labor Income Population between 15 and 60 years

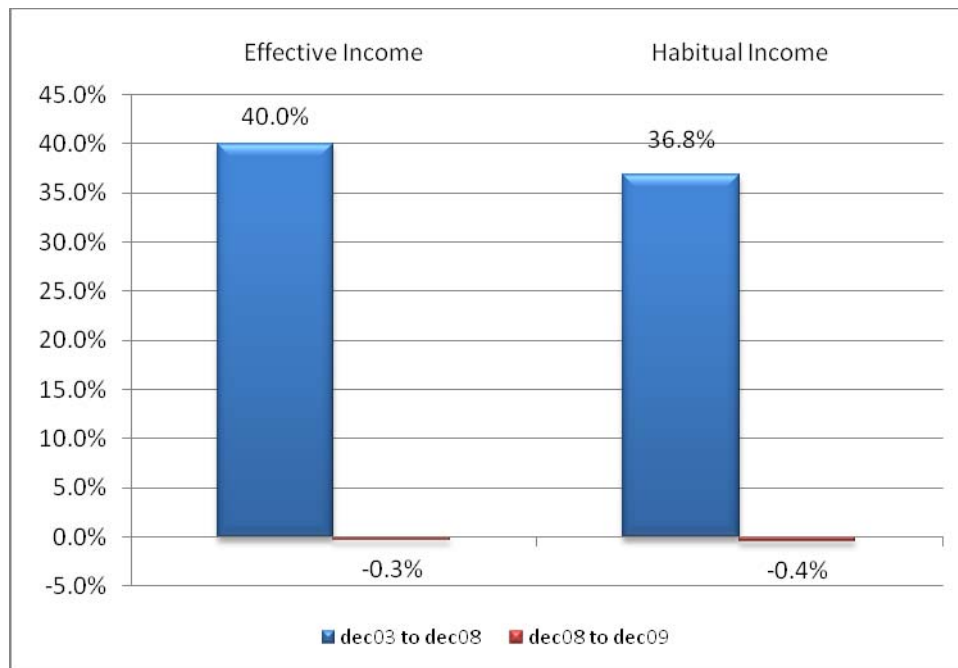


Source: CPS/FGV from the PME/IBGE micro-data

On the other hand, the effective income concept is the adequate for the PME series between 1982 and 2002, before the second reformulation.

¹ Neri 1996 details the differences between the two concepts from the comparison between the PME collected 1980 and the far gone 1982, before the first reformulation. Another point is that the habitual concept tends to be linked to the course of the researched month, whilst the effective to the previous. In this case the effective concept would be the proper as leader indicator of PNAD.

Per Capita Household Income Variation Pre versus Post Crisis



Source: CPS/FGV from the PME/IBGE micro-data

The Summing Up

More of the same is observed in all social series: a draw with many goals along 2009, with strong losses in January and recovery from February onwards. The result is that in December 2009 and December 2008, independent of operations of seasonal effects are the peaks of the series, like waves crests.

Meso Evolution: Capitals versus Outskirts

There is a spatial convergence, the growth of ABC classes in the outskirts was of 33,9% versus 25,8% in the capitals, in the last six years.

The aggregated size of ABC classes during the crisis hides a progression of 1,08% in the outskirts and a regression of 0,55% in the capitals.

The several series above discussed, monitors the macro movements of the social series. Now we go to an analysis of the meso movements of the series, accompanying the

fluctuations of specific sub-groups. In the following sector we go to the micro movements that follows the trajectory of individuals along times. Following, we discuss the capitals and metropolitan outskirts. Despite the fact that the afore have a bigger income (R\$791 versus R\$495) when we consider the last six years, there is a marked reduction in the difference of the ABC classes, between the two types of areas. The growth of the ABC classes in the outskirts was of 33,9% versus 25,8% in the capitals. Restricting the analysis to the last year that captures the impact of the crisis, a growth of 1,08% in the outskirts and a drop of 0,55% in the capitals. Therefore the maintenance of the aggregated size of the ABC classes hides the progression of the outskirts and regression in the capitals. This status convergence between capital and outskirts in the post-crisis was even smaller than the one observed before the crisis.

In the annex of the principal text a series of statistics for the capital and outskirts is presented, including the other economic classes, poverty and income inequality and in the following link: http://www3.fgv.br/ibrecps/2010pme_CLASSEMEDIA/index-br.htm We enlarged the spectrum of variables of meso cut like genre, level of education, age, amongst others. The reader is invited to make an analysis of such information according to its own private interests.

2. Crisis and Individual Risks

Poverty and richness are states and not fixed attributes. The analysis of the individual trajectory allows us to see that the person is not poor, but is in poverty.

The longitudinal aspect of the per capita domicile income micro-data of the PME/IBGE data will also give us the empirical basic evidence as regards the standards of mobility between classes, we need to correlate the data of the same person and family to the different instant of time, that PME allows, despite the fact that is seldom used. The principal lesson of this analysis is that a person is not poor (or of the elite) but that he is in poverty (or of the economic elite). Initially we quantify the magnitude of the fall of the higher economic classes on several sub-periods. We measure the evolution of the falling risks of the individuals of the higher classes and later in a controlled manner, the attributes of each one. In a third stage of this transitional analysis we identify the

personal characteristics closer associated to the vulnerability of the elite groups in relation to the crisis, such as activity area, education amongst others. Let's see:

The Elite Risks

The analysis of the states transition complements those of the time series that show which is the portion of income by each class of the population, determining the magnitude of the risks involved. For example, as we have seen the AB classes suffered little change in the two months in December (went from 15,33% to 15,63% an increase of 2%). However, a lull in the big numbers can hide big little storms in the life of some individuals such as loss of job. We must differentiate situations where micro and macro figures change very little from those where similar quantity is moving in opposite directions, smoothing of aggregated series. Here the explored matter is to evaluate the risks of who has reached the higher classes to recede. Per example, the same individuals observed in December 2008 and in December 2009 falling from an upper class. Now, is it a few or many? If we compare to December of other years the economic regression is only bigger than of 2007 and 2006, 8,87% and 13,32 respectively. On the other hand, the 14,38 regression of classes ABC observed up to December 2009 is lower than the same 12 months ended in 2003 (34,22%), 2008 (19,41% ending during the recent crisis) and 2004 (17,13%). The worse period of the crisis is the one that ended in plain January 2009 hangover when it reaches 24,97%. Incidentally, the furthers of last year when the crisis reached our series. Both results seem to indicate that as we have seen in the in the section, not only AB classes recovered in its aggregated size of the external shocks of which it was the first preferential victim at the start of the crisis, as well as in individuals terms, the risk of decline also normalized, indicating the overcome of the most critical period of the crisis.

Crisis? What Crisis?

After September 2009, the probability of who was in the ABC classes lower its status dropped not only in relation to the crisis, but in relation to pre-crisis.

In the following stage we devised a statistical model that allows the transition analysis of individuals with the same attributes to fall from the ABC classes, taken as a whole.

The model shows that the chance of falling after September 2008 (crisis) was 5% bigger than the one of the immediate period before the crisis started in January 2007.

Going forward we decompose the period initially called the crisis comprising September 2008 and December 2009 into two periods. The chances of fall from the ABC classes between September during the period ended in September was 3,6% bigger than the period that goes from the outset of 2007 to September 2009, but in October to December 2009 period was 5,48% less than the pre-crisis period. That is, that after the crisis completed one year from the occurrence in September 2009, the probability of who was initially in the ABC classes falling from status, dropped not only in relation to the occurring crisis in the 12 previous months but in relation to the pre-crisis. The available device in WWW3.FGV.BR/IBRECPS/C2010/SIM_PME/INDEX.HTM, allows the simulation on persons with own attributes or of interest.

Who Suffered Most With the Crisis?

Who lost more status with the crisis was the well educated (+24%), the industry (+11%) but not the financial sector.

The civil servants that enjoy greater social stability, the crisis affected all occupying positions in a form that maintained the relative position in relation to the pre-crisis.

This part identifies and isolates the affects of the attributes of those who fell from ABC classes during the crisis. We note that: i) the ones working in the industry suffered a relative fall in relation to the pattern of the other sectors (11% more). Yet individuals employed in the financial sector did not suffer displacement **vis a vis** their position on stage. ii) the most educated have suffered relatively more than the uneducated which contradicts most of the usual recession where the unskilled are the first to be unemployed. The chance to drop those with at least high school **vis a vis** the uneducated rises 23.7% more. iii) public officials and employers generally have greater stability in the ABC class, but the crisis affects all persons in the occupation and unemployment. Iv) Finally, the crisis effects more capital than the metropolitan peripheries and in terms of countries the crisis has effected more the center than the periphery of capitalism.