

The Washington Post

Booming economy, government programs help Brazil expand its middle class

By Juan Forero
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RIO DE JANEIRO -- Teresiña Lopes Vieira da Silva peddles spices and peppers from a street stall, but hers is no fly-by-night business.

She sells to restaurants in Rio's swankiest districts and sees her success reflected in the two houses she has bought. Instead of scraping by, she has joined the middle class in an increasingly affluent Brazil, her accomplishment made possible by government loans and a booming economy.

"Now I live in a house with six rooms," said Vieira da Silva, 62, speaking of her home in Rocinha, a poor but bustling district with growing ranks of entrepreneurs. "It does not have a pool yet, but I am planning to build one."

Once hobbled with high inflation and perennially susceptible to worldwide crises, Brazil now has a vibrant consumer market, investment-grade status for its sovereign debt, vast foreign reserves and an agricultural sector that is vying to supplant that of the United States as the world's most productive.

Brazil's \$1.3 trillion economy is bigger than those of India and Russia, and its

per-capita income is nearly twice that of China. Recent discoveries by Brazil's state oil company are expected to make the country one of the world's biggest crude producers. An unwieldy bureaucracy and red tape have not slowed foreign investment, which at \$45 billion in 2008 is three times as much as it was a decade ago.

Economists and social scientists here say the booming trade-oriented economy and innovative government programs are lifting millions from poverty and shaking what was once a certainty: that a person born poor in Brazil would surely die poor.

Since 2003, more than 32 million people in this country of 198 million have entered the middle class, and about 20 million have risen above poverty, according to the Center for Social Policies

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at the Getúlio Vargas Foundation, a Rio policy group that studies socioeconomic trends.

"We can generate inclusive growth as probably no other country can, given the scale of the country and the level of inequality," said Marcelo Neri, chief economist at the center. "Brazil is following what you may call a middle path. We are respecting the rules of the market and, at the same time, we are doing very active social policy."

Since 2002, a commodities boom has fueled strong growth and lowered poverty across Latin America. But Brazil's progress is perhaps the most notable because it has far more poor people than any other South American country and has long been one of the world's most unequal societies.

Neri said Brazil has made solid progress by creating 8.5 million jobs since 2003, and by instituting programs such as food assistance for poor families and low-interest credit for first-time home buyers and small-business owners.

The change has been tangible to people such as Thiago Firmino, 28, a teacher. He has lived in a poor locality all his life, but he owns a car and a computer and says his son's life will be easier than his.

"A lot of people improved their lives,"

said. "It is not like they built themselves a castle, but, you know, they have taken little steps and made things better."

The foundation of today's success was laid during the administration of Fernando Henrique Cardoso, an academic-turned-politician best known for taming inflation in the mid-1990s. The man who has gotten much of the credit is his successor, President Luiz Inácio Lula da Silva, who as a union activist once railed against globalization.

Lula's election to the presidency in 2002 sent shudders through Brazil's economic elite, which worried that the former rabble-rouser would lead the country down a populist, anti-capitalist path, as Hugo Chávez did in Venezuela.

Lula did make ending poverty a priority, but he also proved to be a market-friendly steward of the economy and is

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popular today among Brazil's business community.

With Asia hungry for soybeans, beef and iron ore, economic growth in Brazil averaged 4.2 percent annually from 2003 through 2008, a year in which foreign investment in the country posted a 30 percent increase over 2007, according to the U.N. Economic Commission for Latin America and the Caribbean. The worldwide economic crisis caused a brief downturn here, but economists say Brazil will post 5 percent growth in 2010.

At SulAmérica Investments in Sao Paulo, Marcelo Mello, vice president of asset management, said that in the past, investors worried about inflation and high interest rates.

Now, driven by increasingly affluent Brazilian investors, Mello said, SulAmérica is managing \$9 billion, three times the amount from five years ago. "Through the increase in real income over the last 10 years, we've seen a huge movement in our Brazilian fund industry and the Brazilian markets," he said.

The country's stock market is minting record numbers of billionaires, and the wealth in Brazil is palpable. Luxury apartment houses are rising in fashionable districts, and the world's most exclusive stores, from Tiffany's to Gucci, consider Rio and Sao Paulo fertile

markets.

Of course, most of Brazil's people are far from rich. In the country's vast urban slums, many youths turn to drugs, the quality of public schooling is poor and basic services such as health care are chronically underfunded, residents say.

"Can you believe this serves 150,000 people?" said Flavio Wittlin, who runs a group that helps get young people off the streets, as he walked through a tiny health center in Rocinha. He said many services in the district, from garbage pickup to policing, are substandard.

Still, Rocinha is chock-full of machine shops and small stores, many of them spurred by government loans.

Although Brazil's industrial giants -- such as the airplane maker Embraer and the mining company Vale -- attract

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investors and headlines, the future is also rooted in businesses like Alan Roberto Lima's sewing shop.

The shop, on the second floor of his house in a hardscrabble neighborhood on Rio's outskirts, has only a half-dozen sewing machines. But Lima, 34, has in a few years found that Rio's upscale boutiques are a ready market for his skirts and blouses.

Now he talks of his own clothing line and, if that is a success, opening his own store.

"Preferably," he added, "near the beach."

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