

Income Inequality in Brazil

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INTRODUCTION

During the early 2000's, Brazil experienced a period of economic expansion that pulled millions of people out of poverty. Multiple programs were enacted that aimed to increase education quality and income levels for the lower economic classes of Brazil. In fact, the Gini index for Brazil decreased from 58.4 in 2001 to 53.7 in 2009, illustrating the rapid decrease in income inequality in the country.

However, the gap in income still remains alarmingly present. During the period from 2000 to 2015, 61% of economic growth was attributed to the richest 10% of the population. According to one estimate, it will take approximately 75 years for Brazil to achieve the same level of inequality as the United Kingdom.

Our group was able to see the effects of the current inequality during our visit to Manaus.



Homes on the banks of the Rio Urubu.



POSSIBLE FUTURE SOLUTIONS

Gathering research and experiences from the trip to Brazil, I think an important step towards income equality will involve adjusting public spending. Much of the benefits of programs such as social security involve very generous benefits to the richest 20% of the population.

It is reported that approximately 8% of spending could be cut without affecting the poor, allowing for a reduced budget deficit and more room for social welfare programs similar to Bolsa Familia. However, considering the political power of the top 10-20% of the Brazilian population, these necessary budget adjustments may not occur as soon as we would hope.

This trip to Brazil allowed me to experience first hand the living standards of those poorly affected by income inequality. Learning about topics such as consumer behavior and visiting start ups in person gave me a new perspective that has helped me understand how different economic conditions can establish unique behaviors in populations as a result of their struggle to survive and succeed.

CAUSES OF INEQUALITY

2014 Recession

Partly conceived by the political scandal, Lava Jato, as well as increasingly high interest rates, Brazil's economy took a downturn that set the goal of income equality further away than ever before. In 2015, GDP growth was at a staggering -3.8%, and unemployment reached 8.4%. Despite the economic growth of the early 2000's, the 2014 recession set Brazil back by decades.

Geographical Divide

Much of the Brazilian population resides in the expansive rural landscapes of the nation, where access to education and healthcare is extremely difficult. One family that our group visited lived on the banks of the Rio Urubu, and their home was a two hour journey from the nearest school. This geographical divide perpetuates the lack of financial education among Brazilian citizens.

High Land Ownership Concentration

In 2015, it was stated that almost half of the arable land in Brazil is controlled by one percent of the population. Considering that agriculture makes up about a quarter of GDP, this high concentration of land ownership perpetuates the flow of large sums of money to a small proportion of Brazilians.

On top of this, President Temer intends to propose a bill allowing for an increase in foreign ownership of agriculture. While this will definitely stimulate Brazil's economy, it could also result in even more severe income inequality than previously seen.

Bureaucracy

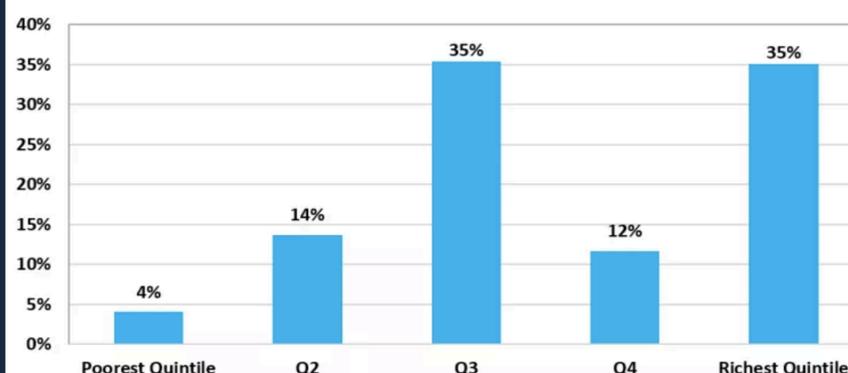
One important fact to be aware of for anyone hoping to start a business in Brazil is that the bureaucratic labyrinth makes it almost impossible to do so. The wait time for simple documents to be processed such as a construction permit is typically over a year. Including the dozens of types of taxes existing in Brazil, navigating through the paperwork of opening a business can be extremely discouraging.

After visiting multiple successful companies in Brazil, a sense of respect is felt for the hard work that must have been done to overcome the governmental obstacles.

High Interest Rates

During each visit to a company, it was hard to avoid the topic of high interest rates in Brazil. We learned at Creditas that Brazil has the fourth highest interest rate burden in the world. The oligopoly of five banks currently in Brazil gives them the power to keep the interest rates so high, which makes borrowing extremely expensive.

Subsidies from public pensions in each income quintile



PAST SOLUTIONS

In the first decade of the 21st century, the Brazilian government instituted multiple programs that effectively helped to alleviate the income gap.

Bolsa Familia

In 2003, President Lula enacted a program that keeps children in school and encourages them to receive health care. Families who don't exceed the permitted number of school absences and who get their children vaccinated receive cash transfers. It is estimated that Bolsa Familia reaches about a quarter of the Brazilian population, or 50 million people. By educating citizens, people will be able to make a sustainable income and come to have financial knowledge to help manage their assets.

Education Reform

Bolsa Escola, similar to Bolsa Familia, is a cash transfer program that ensures students attend at least 85% of school days. Additionally, the government aimed to increase government spending on public education from 5.7% to 10% of GDP. President Dilma Rousseff enacted a law stating that 75% of oil royalties would go towards education.

Minimum Wage Adjustments

After having a relatively stagnant minimum wage for decades, the government decided to increase the minimum wage to make up for the decline in real value, rather than allow presidents to adjust it. It is now adjusted according to the rate of inflation and GDP growth, and it continues to be adjusted every year.

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