

Development in unequal societies

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September 2nd, 2015

Development and inequity

- If intense and enduring inequities are underdevelopment traits, developing interventions must confront them.
- Given the capitalism trend to concentrate income and wealth (Piketty 2014), a development program need to control inequities.
- An appropriate development measure could be the GDP or the HDI adjusted for inequity (IHDI, UNDP).
- Brazil is the seventh economy, but the 79th country in terms of HDI and 95th in IHDI. Gini Index among the 13 largest in the world. High and long lasting. (UNDP 2014, WDI 2014).

Development and inequity

- High inequity combined with higher tax rates or lower growth rates, and democracy does not seem to have been enough. ([table 1](#))
- 5 decades of growth in Brazil did not reduce inequity, except when reduction was a clear goal.

Development and inequity

- Assumption: socially unbalanced economic growth tends to reproduce itself through a "political economy".
- That is to say, "tax morale" hoarding opportunities, privileged access to political elites by economic elites ...

The "golden decade" in Brazil: democracy, growth, equity

- The bet: endogeneity of the social policy or "pro-growth" social policy. (Table 1).
- A concept: re-distributive growth:
 - growth that has redistribution as input and greater equity as product;
 - redistribution through regulatory interventions, government transfers and service provision.
- The Brazilian case: the re-distributive growth ...
 - ... Pulled by the mass private domestic consumption (Table 2);
 - stimulated by household income and access to credit;
 - incited by labor market policies and government transfers

The "golden decade" in Brazil: democracy, growth, equity

- Forged forecasts:
 - Income programs have not reduced the participation in the employment of the poor (several IPEA / MDS 2014).
 - The increase of the minimum wage did not bring unemployment or greater informality; it was concomitant with the general improvement in the labor market (several, Brito 2015).

- Forged forecasts:
 - The minimum wage increase did not cause agglutination of workers in income ranges below the minimum wage (Brito 2015). The minimum wage approached the average salary and it tended to really become the **minimum wage**.
 - The increase in workers schooling did not reduce the inequality of labor income (Ferreira et al., 2014;. Brito 2015).
 - The main program of focused income reduced inequity to a lesser extent than the minimum wage (Brito 2015).

Impact of the re-distributive growth on inequity: Conditional cash transference (*Bolsa Família*) and Minimum Wage

- From 2006 to 2011, the Bolsa Família Program represented 10% and the minimum wage a little bit more than 32% in the reduction of inequity (Brito 2015).
- However, the "labor market" effect has not mastered the "government transfers" effect because the minimum wage indexes constitutional government transfers (not Bolsa Família).

Total contribution of the minimum wage in the reduction of inequity between 1995 and 2013

- **73%** of total drop (Brito 2015)
 - The channel "labor market" represented **26.3%** (same)
 - The channel "pension plans" represented the biggest share: **37.7%** (same)
 - And the channel "assistance", **8.4%** (same).
- In other words the impact of the minimum wage through government transfers was dominant, **46.1%**, thanks to its constitutionally defined role of social minimum.

The Golden decade: The B side

- Growth boosted construction, commerce and personal services, creating jobs in these sectors;
- The necessary consumption gap continued to be important (Kerstenetzky and Monçores 2014) as well as the discretionary (Kerstenetzky, Uchoa, Silva 2015) and public (slides [15](#), [16](#) and [18](#)) consumption;
- Insufficient growth of public social services that could equalize opportunities ([23](#) and [22](#)).

The Golden decade: The B side

- Despite the tax burden has been increasing since 1995, **there has been no progress in the progressive taxation.** Social pact of taxation differs from the incorporation of the rights in the 1988 Constitution (see tax rates - Souza 2014). Total taxation almost nullifies the progressive effect of transfers (Lustig et al. 2013).
- Inequity is much higher and resilient according to the income tax data that shows **higher incomes:**
 - ✓ Income: 1% holds 25%; 5% holds 50%; 0.001% holds the same 50% poorer. (Medeiros et al. 2014) . 1% Participation has grown between 2006 and 2012 (Souza 2014).
 - ✓ Wealth: 1% of taxpayers holds 30% of the declared wealth (IRRF 2015).

Service potential and taxation: international experience

- Services:

- Employment growth and income meeting social needs and expanding production capacity (Lindert 2004);
- Impact on innovation (lifelong education) (Stephens & Huo 2014);
- Change in product pattern and consumption pattern (Kerstenetzky 2015; Norden 2015));
- Likely impact on the environment;
- valued job (proxy "public employment", strongly correlated with Gini: $r = -.71$); mobility (consolidation of class C).

Service potential and taxation: international experience

- Services:
 - Gender equality, emphasizing care services (several, Esping-Andersen 2009);
 - Impact on intra-generational and inter-generational inequities - equalizing the opportunity structure (several, Esping-Andersen 2015);
 - Public spending on education and health reduce inequities in the final income rather than transfers (Lustig 2013);
 - Broader redistributive coalitions (preferences for redistribution when taxpayers benefit): the "middle class" factor (Judt 2010; Pierson 2006).

Service potential and taxation: international experience

- Progressive taxation:
 - One of the factors of the Great Postwar Compression (Piketty 2014), Brazil as well probably (Souza 2015);
 - Basis of the most re-distributive modern social state (OECD 2015);
 - Strengthening tax collection in case of crisis; additional funding from the state; financing of additional social investment;
 - Wealth tax to limit its accumulation and control the 1% increase (Piketty 2014); Inheritance tax to equalize access to social inheritance (Atkinson 2015).

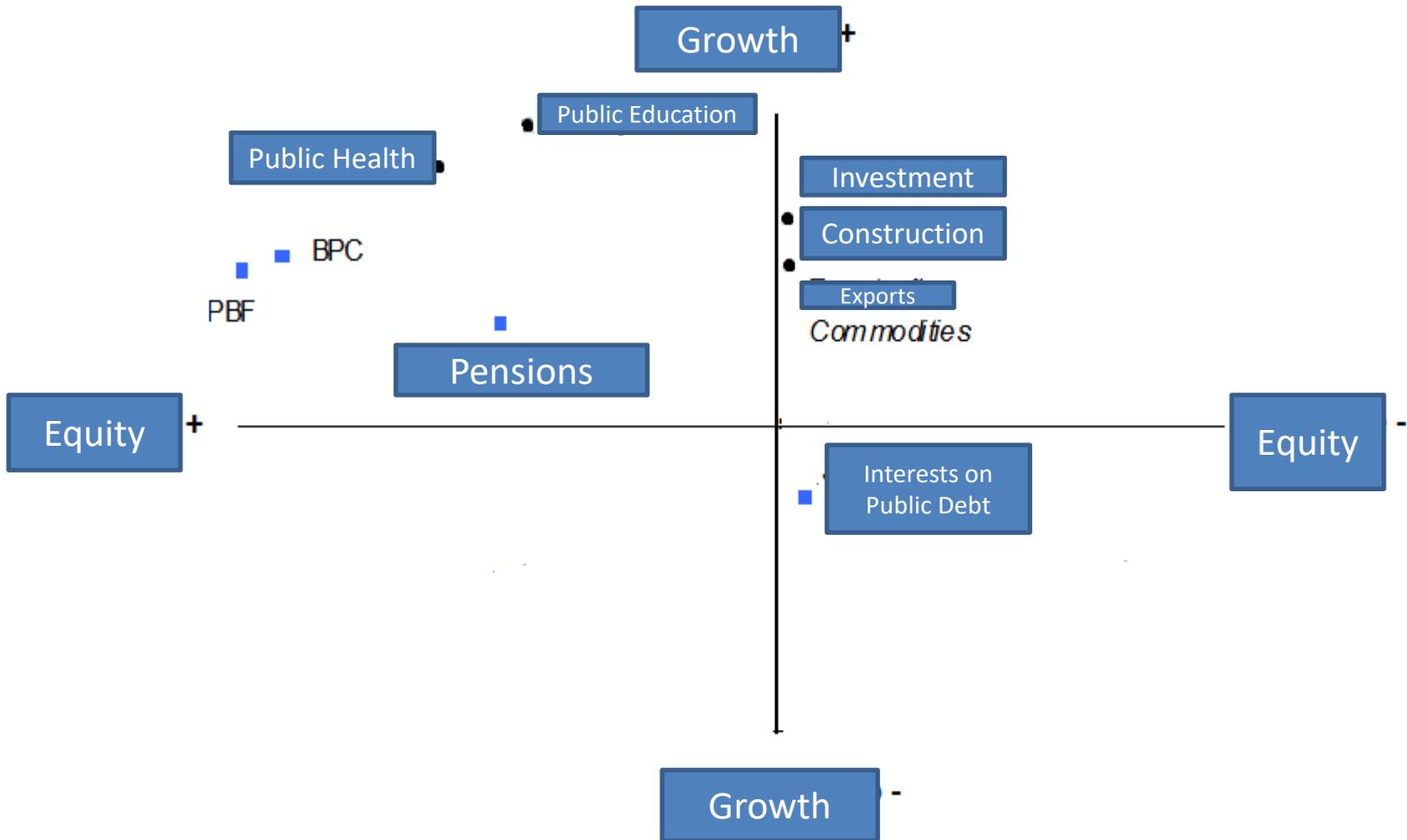
Reviewing the re-distributive growth model?

- Highlighting **public consumption** and **progressive taxation such as developing policies**: growing meeting social needs and promoting social balance;
- Opportunities for social action:
 - Bad Services; relatively low level of public employment;
 - Incipient progressive taxation(Gobetti 2015, Nascimento 2015; idem);
 - Fiscal adjustment and social investment.
 - High inequity and concentration at the top, insensitive to usual policies, including education (Medeiros 2015).

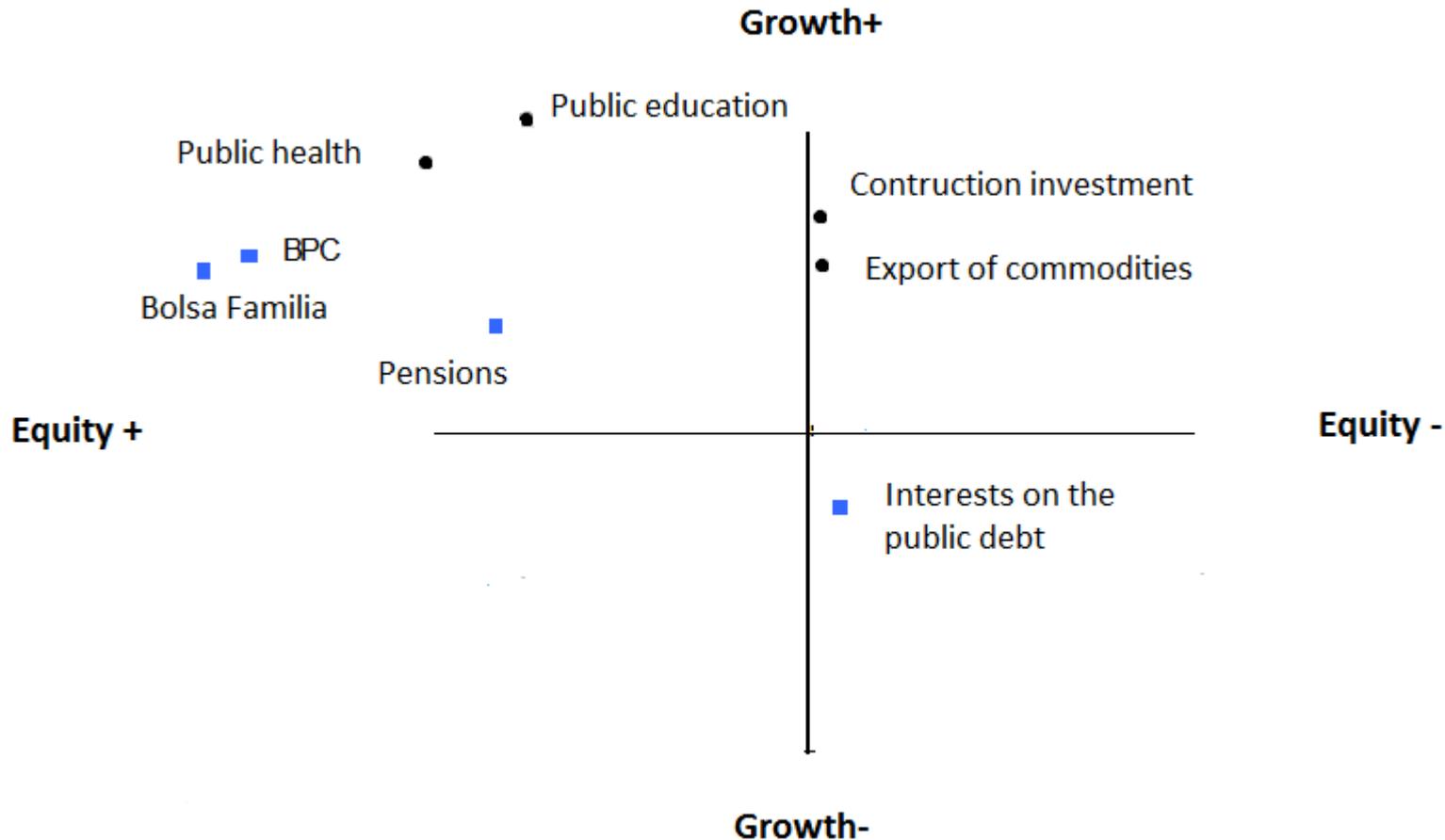
Brazil: Inequity, Growth and Political Regime

YEAR	GINI	Growth rate	Regime
1960	0.50		Limited democracy
1970	0.57	++++ 1960s	Dictatorship
1980	0.60	+++ 1970s	Dictatorship
1990	0.64	+ 1980s	Redemocratization
2000	0.61	+ 1990s	Democracy
2010	0.52	++ “Golden decade”	Democracy and center-left coalition

Estimated contribution of social policies for the re-distributive growth: multiplier effect (IPEA)



Estimated contribution of social policies for the re-distributive growth: multiplier effect (IPEA)



Extreme poverty according to the *per capita* family income criteria –
Brazil, 2012 (number of people and %)

	PBF (70 e 140 reais)		Food basket (103 e 206 reais)		50% Of the median		60% Of the median	
	Nº of poor people	% tot pop	Nº of poor people	% tot pop	Nº of poor people	% tot pop	Nº of poor people	% tot pop
Extreme poverty	8.139.481	4,3%	12.003.957	6,4%	-	-	-	-
Poverty	9.176.811	4,9%	18.754.238	10,0%	44.752.496	23,8%	56.841.050	30,2%
Total	17.316.292	9,2%	30.758.195	16,3%	44.752.496	23,8%	56.841.050	30,2%

Source IBGE. PNAD 2012. *Elaboração própria.*

Note Median of average per capita family income = 533,00. 50% of the median = 266,50. 60% of the median = 319,80

Percentage of households that possess the item by income range – Brazil – 2008 – 2009

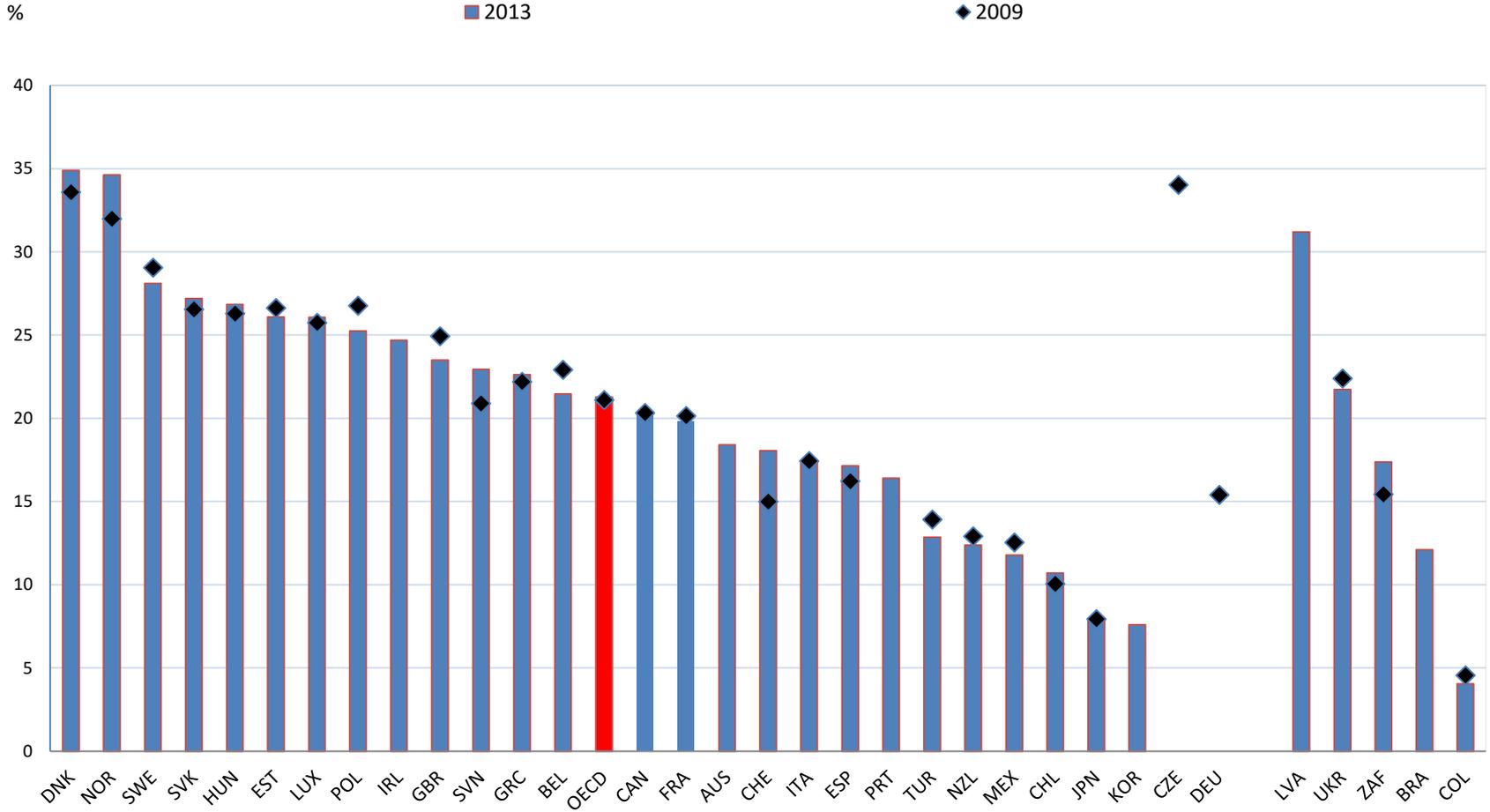
Criteria	Items	New middle class					
		Up to 658.00	658.00 to 1,052.00	1,052.00 to 2,214.00	2,214.00 to 3,375.00	3,375.00 to 4,537.00	More than 4,537.00
		%	%	%	%	%	%
Stable standard of living	Savings account	3.8	6.7	14.3	24.7	28.9	41.0
	Private pension plan	0.1	0.1	0.5	1.9	3.4	11.8
	Health insurance plan	2.3	4.9	14.3	33.7	48.2	67.7
	Car	4.4	9.3	23.7	48.3	63.0	81.5
	Credit card	8.6	16.3	26.7	42.8	53.3	69.0
	Checking account with overdraft	1.9	3.7	9.3	24.4	35.9	62.8
Home ownership and housing conditions	Own home	64.5	67.7	72.4	76.6	79.0	80.6
	No crowding	26.7	23.8	19.4	14.3	11.6	5.8
	Indoor bathroom	86.5	94.6	98.2	99.5	99.9	99.9
	Adequate material	85.5	93.6	95.8	97.3	97.7	96.1
	Public services	23.9	34.2	44.1	56.2	60.3	69.3
University education	University education	0.8	0.9	2.9	9.2	16.5	40.5
Access to good schools	Childred attend private school	3.3	5.6	9.9	19.2	29.8	60.7
Access to leisure, diversion and spare time	Leisure and sports services	45.3	48.8	56.0	62.1	67.5	74.4
	Subscription TV	0.4	0.7	1.7	5.2	9.7	26.1
	Color TV	92.6	95.0	96.6	97.7	98.0	98.8
	DVD player	44.9	53.0	64.4	75.1	79.8	85.9
	Washing machine	13.7	23.2	41.0	62.8	73.3	83.4
	Vacuum cleaner	0.9	1.7	5.8	15.0	24.6	42.1
	Maid	4.0	6.5	11.8	21.6	32.3	60.6
Access to information and communication technology	Internet in home	0.8	2.1	6.5	17.5	30.2	52.1
	Computer	2.7	6.6	17.9	40.2	57.1	75.8
	Mobile phone	22.9	34.1	46.5	58.3	64.1	71.9

Source: Prepared by the authors, based on data from the POF 2008-2009/ IBGE

Notes: * million

** amounts updated by the Consumer Price Index - IPCA/IBGE -January 2009

Public sector employment as a percentage of total employment (2009 and 2013)



Source: International Labour Organization (ILO), ILOSTAT database. Data for Italy are from the National Statistical Institute and the Ministry of Finance. Data for Portugal are from the Ministry of Finance. Data for Korea were provided by national authorities.

**% Illiteracy and % Attendance at various levels
(net rates) 2011 (ABE 2014, PNAD 2013)**

Illiteracy (15y +)	Primary (6-14)	Secondary (15-17)	Tertiary (18-24)	Preschool (0-3)
8,6 (one of the highest in LA)	92.4	52.2	15.4 (2012)	23

Years of Schooling: inequities (ABE 2014)

White	8.3
Black	6.4
20% poorer	7.7
20% richer	11.7

Composition of the Union's social expenditure: 2006-2013 (Ceccato 2014)

% Social Expenditures	2006	2007	2008	2009	2010	2011	2012	2013
Social Security (Pensions)	68,0	66,0	65,5	63,5	63,4	62,2	60,2	60,0
Health	12,1	12,1	12,1	12,1	11,5	11,9	11,6	11,0
Social Assistance	7,0	7,2	7,5	7,6	8,2	8,1	8,3	8,4
Jobs and Employment	5,2	5,5	5,8	6,5	6,2	6,3	6,2	6,5
Education and Culture	5,6	6,3	6,7	7,5	8,8	9,3	9,6	9,6
Agrarian Organization	1,5	1,6	1,3	1,5	1,1	1,3	0,8	0,9
Basic Sanitation and Housing	0,6	1,3	1,2	1,2	0,8	0,8	3,3	3,6

Source: SIAFI

Per capita expenditure on Health: selected countries – 2005

Country	Per capita public expenditure (US\$)	Per capita public expenditure (PPC)	Per capita total expenditure (US\$)	Per capita total expenditure (PPC)
Brazil	164.0	293.0	371.0	662.9
OECD Average (ex. E.U.A.)	2,518.2	2,256.3	3,323.6	2,989.2
Latin America Average (ex. Cuba)	174.8	335.2	355.4	674.3

Source: World Bank (2008) and WHO Statistics Report (2008). Self-elaboration.

Education Current Expenditure (2011): Brazil x OECD (Source: OECD 2014)

	% GDP	Primary (per student)	Secondary (p.s.)	Tertiary (p.s.)	Preschool 3-6 (p.s.)
Brazil	5,85 (24/37)	2,673.49 (32/37)	2,662.3 (35/37)	10,901.95 (23/37)	2,345
OECD	6.07	8,295.84	9,280.48	13,957.75	7,446

Contributions to the GDP growth rate (percentage): Brazil 2006-2013. IBGE,
Quarterly National Accounts.

Year	Family Consumption	Public Administrat ion Consumpti on	Gross fixed capital formation	Exports	Imports
2006	3.2	0.5	1.6	0.8	-2.1
2007	4.0	1.1	2.4	1.0	-2.3
2008	3.7	0.7	2.5	0.1	-1.9
2009	1.4	0.2	-1.7	-1.5	1.3
2010	5.0	1.2	4.1	1.4	-4.1
2011	2.2	0.3	0.8	0.4	-1.1
2012	1.4	0.5	-0.9	-0.1	0.1
2013	1.8	0.5	1.0	0.4	-1.2

Teachers (various)

High school degree	25% (NE=58%, N=64%, Among those teaching at the preschool=57%)
Relative earnings	60% (OECD=92%; Korea=136%; Brazil among the lowest ratio)
Deficit	250,000
Time keeping order	20% (the highest percentage in OECD+)
Time teaching	69% (OECD=79%)

Source: OECD 2014; ABE 2014.

Preschool: % attendance and \$ per capita (PPP)

	Brazil	OECD
Attendance 3y.	37	74
4y.	61	84
5y.	82	94
\$ per capita	2,349	7,446

% of adults with a college degree

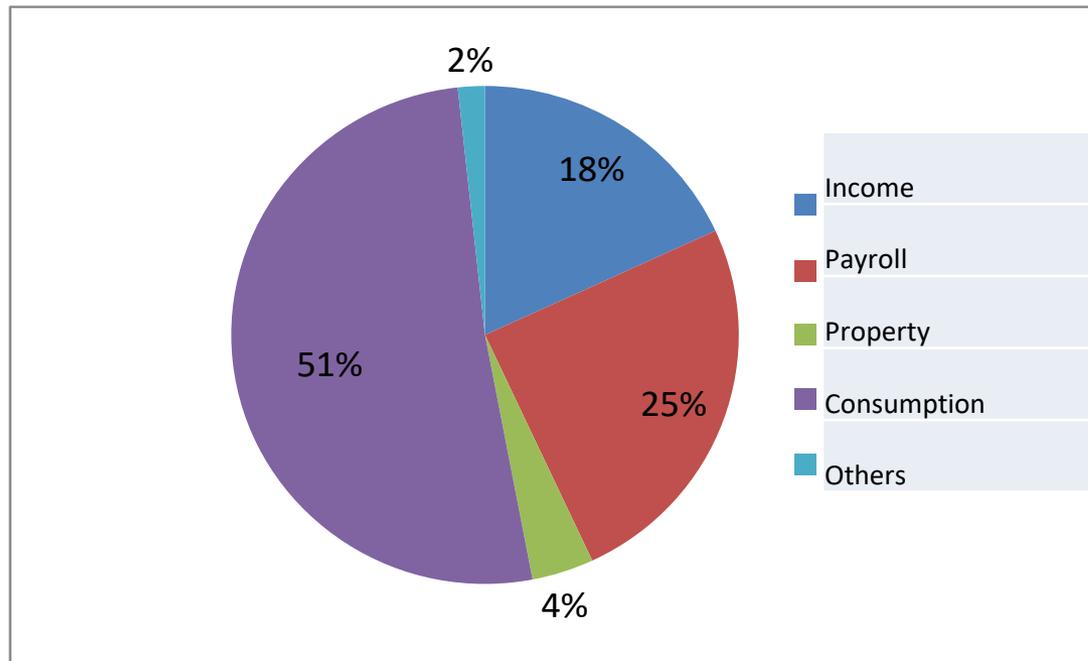
	25-34 years old	55-64 years old	25-64
Brazil	14	10	11
OECD	39	24	30
Korea	66	14	42

% of adults with at least a high school degree

	25-34	55-64	25-64
Brazil	59	27	45
OECD	82	64	75
Korea	98	48	82

Source: own elaboration from OECD (2014) data

Tax Burden composition in 2013 (Nascimento 2015)



Brazil and OCDE 2012 (Nascimento 2015)

