

## **STRATEGIC**

## **NOTES**

**STRATEGIC AFFAIRS SECRETARY OF THE PRESIDENCY OF THE REPUBLIC**

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### **STRATEGIC NOTE 3 – THE PROCESS OF INCLUSIVE DEVELOPMENT IN THE LAST DECADE IN BRAZIL**

It is incontestable the fact that one of the most serious and persistent social problems of Brazil throughout its history has been the high inequality of income distribution. For this exact reason, the country has made a strategic choice of a development model based heavily on inclusion.

This note shows that the development of Brazil in recent years has indeed been inclusive and comprehensive. Inclusive because, although it has benefited all social groups, it has been more beneficial to the more vulnerable population, leading to substantial reductions in inequality and poverty; and comprehensive in that it has reached the most varied dimensions of living conditions.

A third dimension concerns the source of the income growth of the poorest. In order to be sustainable, income growth needs to be based on productive inclusion, i.e., it should result primarily from gains in labor income rather than on governmental transfer mechanisms. This note makes an analysis of recent Brazilian development focusing on the first two issues – inclusion and coverage. In a later note, the third aspect – the source of income – will be discussed, together with the main challenges for the coming years.

One way to visualize the inclusive nature of the development process is to compare the growth rate of per capita income of the poorest groups with the richest ones. Chart 1 presents

the average annual growth rate of the per capita income over the last decade, by deciles of the income distribution<sup>1</sup>

Chart 1 – Evolution of the degree of inequality of the income distribution: Brazil, 1976-2012



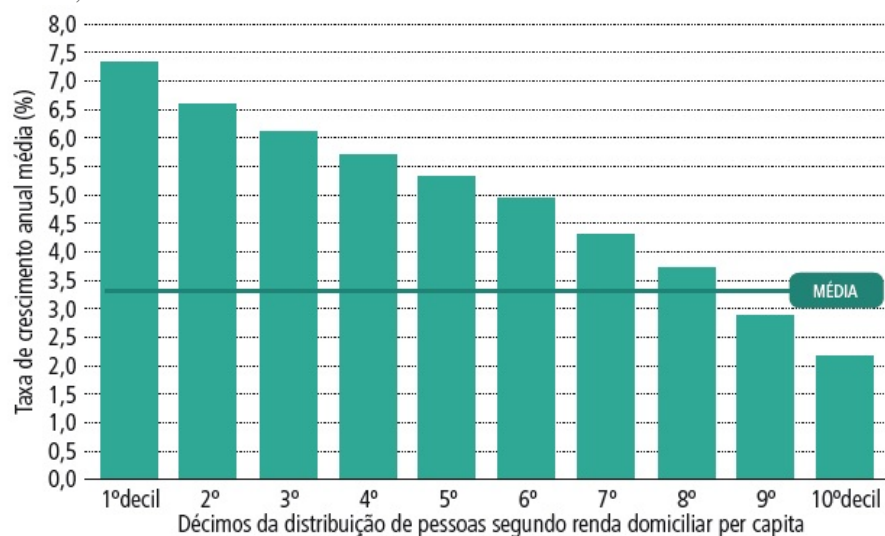
Source: SAE/PR based on data from the National Household Sample Survey (PNAD).

The chart shows that all tenths have reached income gains over the decade. Income growth, however, has not been the same for all groups. On the contrary, the growth rate was consistently higher in the poorest groups. In particular, the annual average growth rate of the per capita income among the 10% poorest – 7.3% -, was nearly 3.5 times higher than the same ratio between the 10% richest – 2.1%.

The great inequality in growth rates achieved by Brazil in the past ten years (in which the income of the poorest grows faster than of the richest) is precisely what is necessary for the reduction of income inequality.

There is no question therefore, that the country has experienced at least a decade of inclusive growth: even though everyone has benefited, it has benefited more intensely the poor population, leading to inequality reduction. Chart 2 confirms this fact by showing the evolution over the past four decades of the most traditional inequality measure: the Gini Coefficient.

Chart 2 – Average annual growth rate of the per capita income per tenths of distribution:  
Brazil, 2001-2012



Source: SAE/PR based on data from the National Household Sample Survey (PNAD).

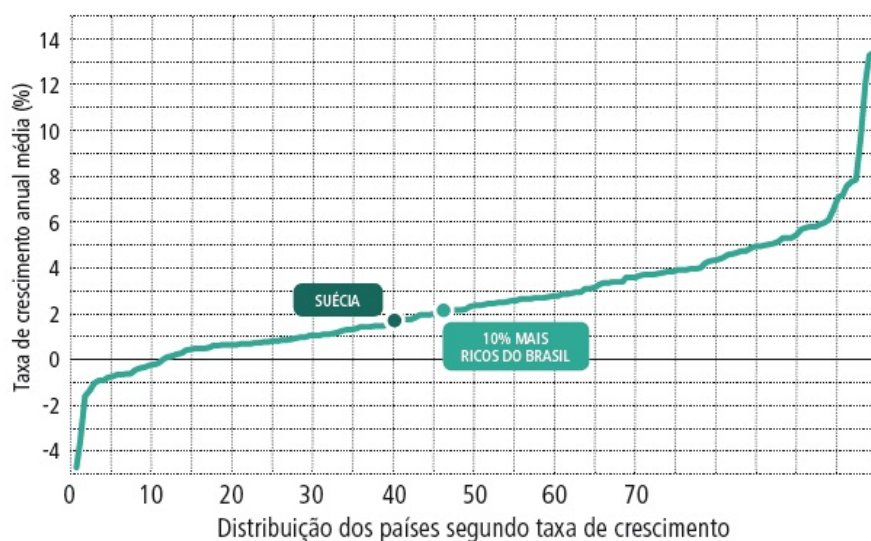
For a given income distribution of a society, the Gini coefficient measures the average distance, in terms of income, between two people in this society, expressed as a ratio of the median income in the country. Thus a Gini coefficient of 0.50 means that, on average, the distance between two people in society is half the average income of that society.

Chart 2 shows that the Brazilian inequality, which had remained around 0.60 from 1975 up to 2000, started to decline systematically from the beginning of the new millennium. In a decade, due to relatively constant annual reductions (around 0,006 a year), the Gini coefficient dropped from 0.59 in 2001 to 0.53 in 2012. The fact that the decline has happened every year, regardless the growth rate of the Brazilian economy and the global scenario, suggests, though it does not guarantee, that this process of reducing inequality should be sustainable.

But how significant was the reduction in inequality achieved by the country? Is a reduction of 0.07 in the Gini coefficient significant? After all, even after this systematic inequality decrease, half the country's income continues to be owned by the 15% richest, while the income of the 10% richest, despite growing 4 times slower, is still 40 times the income of the 10% poorest.

Even though the income is too concentrated, there is concrete evidence that the decline in inequality in Brazil was extremely sharp. One way to recognize that this decrease could hardly be any sharper is to compare the rates of income growth of the poorest (7.3% annually) and the richest (2.1% per year) in Brazil with the growth rate of other countries in the world. Chart 3 shows that in the last ten years the income of the 10% poorest in Brazil has grown at a faster pace than that observed in 97% of countries in the world, ie the 10% poorest reported a growth rate almost like the Chinese. On the other hand, the per capita income of 54% of the countries has grown faster than the Brazilian 10% richest. So if the 10% poorest may safely say that they are among the segments of the world society who experienced the highest growth in income, the 10% richest may consider slow the growth rate of their per capita income.

Chart 3 – Distribution of countries according to the average annual growth rate of per capita income: World, 2000-2010



Source: SAE/PR based on PNUD data.

As has already been mentioned, any decline in inequality requires differences between the rates of income growth of the poor and the rich. In Brazil, the income of the poor has grown much faster than the average in the last twelve years, while that of the richest has grown more slowly than the average. The result is that, while the poor realize that they are approaching the national average, the wealthy see this average approaching them. This approach perception is a way to visualize the intensity of the inequality decline. This perception depends on the difference between the rates of income growth of the poorest and the richest.

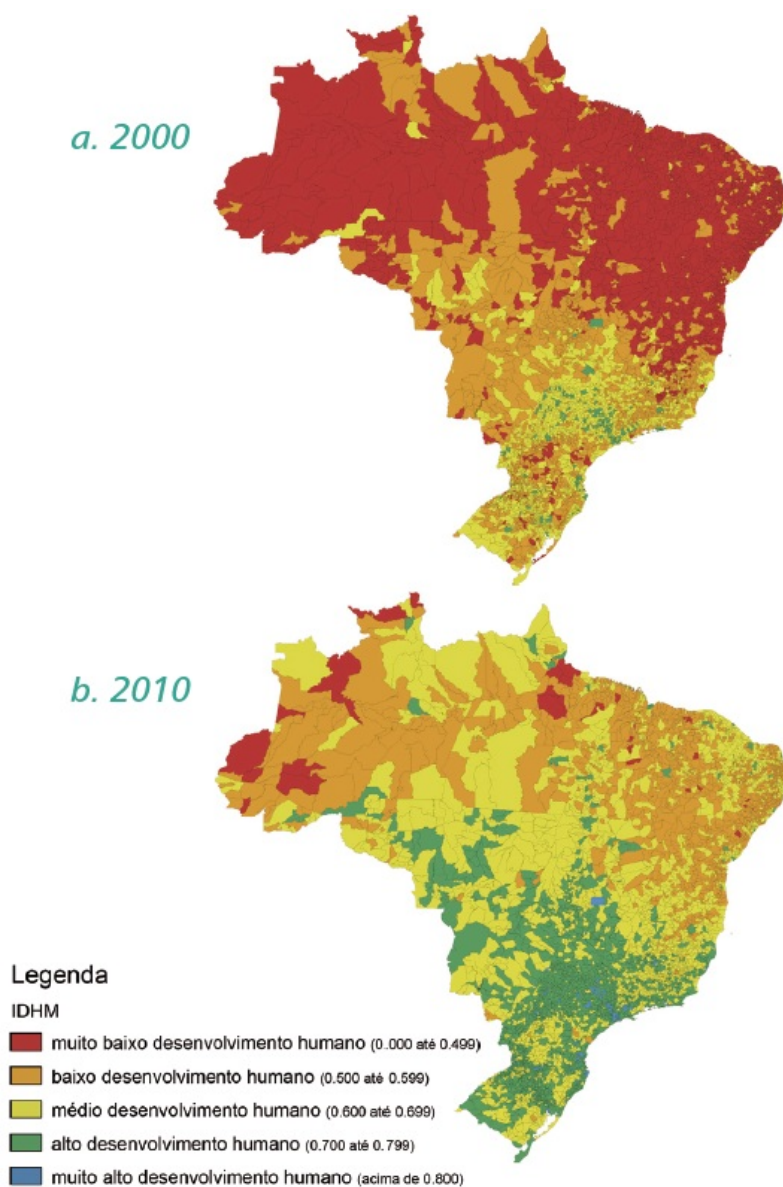
Since this difference is similar to that between the rates of income growth in China and Sweden, it can be said that the wealthiest in Brazil see the poorest approaching them with almost the same speed as the Swedish see the Chinese approaching them.

Therefore, in order for Brazil to have achieved an even greater reduction of inequality, it would be necessary that the difference between the rates of income growth of the poorest and the richest in the country were even more pronounced than it was.

Maintaining systematically the growth rate of the income of the 10% poorest to be 3.5 times that of the 10% richest is certainly an enviable success in combating inequality. Although this is not enough to put Brazil, in a decade, with a level of inequality aligned with the more developed countries, it certainly puts Brazil in the world leadership in tackling inequality. Maintaining this speed, we still need two more decades to achieve really low levels of inequality (Gini coefficient close to 0.40).

An alternative way to visualize the importance of the Brazilian inequality decrease is to compare it with the inequality growth in China. While China's Gini coefficient lower than 0.45 in 2000 increased to nearly 0.50 in 2008, Brazil took the opposite route, going from 0.60 in 2000 to 0.55 in 2008. In both countries the variation in inequality was 0.05 in eight years, China in terms of income concentration and Brazil in terms of a better distribution.

Map 1 – Municipal HDI



Source: IPEA/FJP/PNUD ([www.atlasbrasil.org.br](http://www.atlasbrasil.org.br))

The inclusive nature of the recent Brazilian development was not limited to the changes in income distribution. In different social and economic dimensions there was progress which benefited everyone, especially the most vulnerable. A striking example was the advance in life expectancy at birth.

The Brazilian advancement along the past decades in terms of life extension has been remarkable (see Maps 1a-b). Certainly, we cannot increase a year of life expectancy in every calendar year. However, we managed to increase it by more than ½ year in each calendar

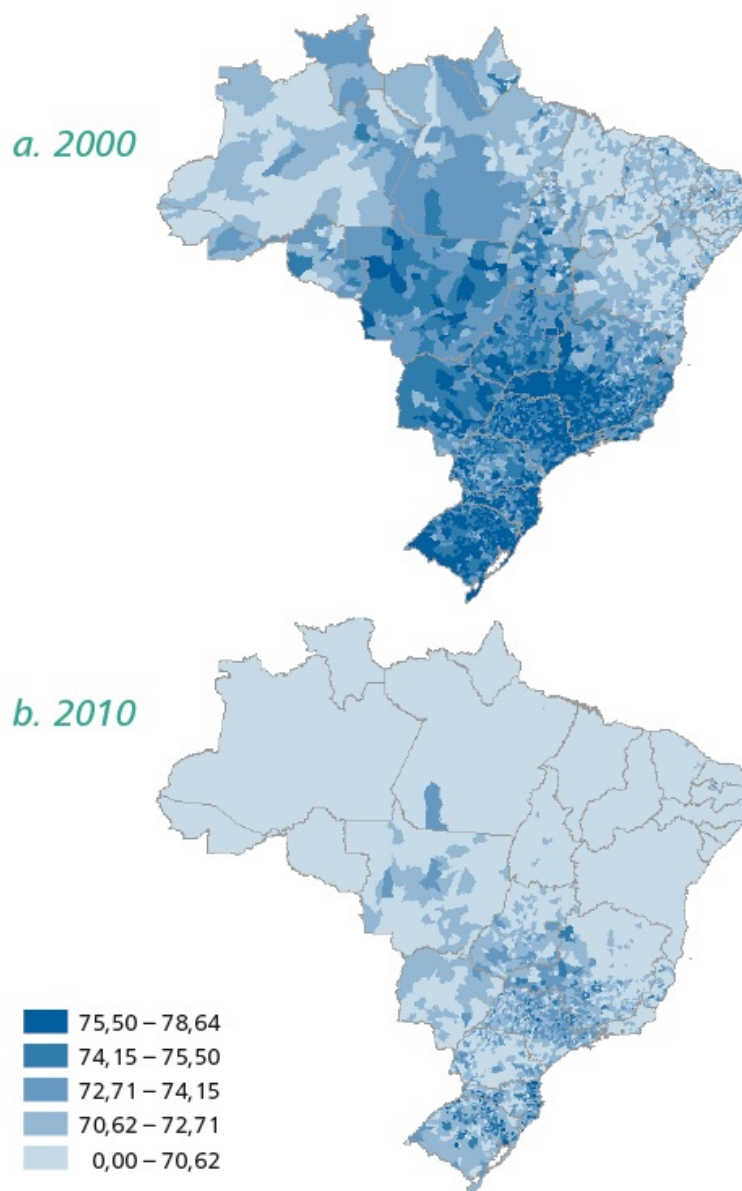
year, so that the life expectancy at birth in the country changed from 69 to nearly 74 years old in the last decade.

Most importantly, in more than 70% of Brazilian municipalities, life expectancy has increased by more than one third of a year, in every year calendar. In other words, we rose by more than 3 years the life expectancy in about 4,000 Brazilian municipalities.

The advance in life expectancy at birth is an excellent example of the breadth of social progress that the country has achieved in the last ten years. A much more comprehensive view of these developments can be seen from the Municipal Human Development Index<sup>2</sup> (see Maps 2a-b). As these maps show, Brazil has passed from a situation (in 2000) in which 42% of the municipalities had an HDI lower than 0.50 to a situation (in 2010) in which virtually all municipalities<sup>3</sup> had the HDI above 0.50.

In terms of HDI, the inequality between municipalities had also declined. While half of the municipalities had HDI between 0.65 and 0.72 in 2000, half of the municipalities had HDI between 0.71 and 0.75 in 2010.

Map 2 – Municipal HDI for Longevity



Source: IPEA/FJP/PNUD ([www.atlasbrasil.org.br](http://www.atlasbrasil.org.br))

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