

# THE BRAZILIAN ECONOMY



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## CONSTRUCTION

**TAKES A  
GREAT LEAP  
FORWARD**

A construction worker wearing a white shirt and a yellow hard hat is seen from behind, working on a large-scale construction project. The worker is standing on a grid of steel reinforcement bars (rebar) that has been laid out on a concrete surface. The worker is holding a long, vertical metal tool, possibly a screed or a straightedge, which is used to level the concrete. The background shows a vast, flat expanse of concrete, suggesting a large-scale infrastructure project. The overall scene is one of active construction and progress.

**VIEWPOINT** Juggling with public accounts  
**ROUNDTABLE** The exchange rate dominates the economic debate  
**POLITICS** Presidential election countdown

# Good news for the poor



**Marcelo Cortes Neri**

Brazil reached a milestone in 1995 when the Institute of Geography and Statistics (IBGE) opened its data to the public, allowing anyone to look at Brazilians in their homes from a variety of perspectives. Today, at each release of the results of a new National Household Survey (PNAD), we can discuss our achievements and setbacks.

The PNAD is such a multifaceted database that it is very difficult to synthesize the results to draw simple conclusions

about whether the lives of Brazilians life have improved or worsened. Our strategy is to approach a social welfare conclusion by looking at a single dimension, the information related to income. The assumption is that once the information is integrated, it will be easier to identify the relative magnitude of observed changes and perhaps suggest causes.

To provide a summary of well-being from all indicators by projecting a single number corresponding to the level of social welfare, we chose a simple solution to combine the effects of the mean and inequality in a single measure, a model

proposed by Amartya Sen, who won the Nobel Prize in economics: social welfare is equal to average income per capita multiplied by the complement of the Gini (a measure of inequality). Inequality functions as a discount factor of well-being in relation to average income; when it is applied for 2009, average monthly per capita income of R\$630 would be equivalent to R\$287. By this measure, between 2003 and 2009, per capita income increased

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by 32%, but social welfare increased by 44%. This was reflected in the reduction of inequality in the period. Income inequality in Brazil has fallen since 2001. Between 2001 and 2009, per capita income in the richest tenth of the population rose by 1.5% annually, but the incomes of the poor grew at a remarkable rate of 6.8%.

#### **GDP versus PNAD**

There has been a marked difference between changes in income per capita as it relates to GDP and as it is measured by the PNAD. From 2003 through 2009 GDP per capita grew on average 2.9% a year, but the PNAD suggests per capita income grew annually by 4.7%. In 2009 per capita GDP fell by about 1.5%, but the PNAD found an increase of 2%. In China and India the opposite occurred: GDP grew more than income as measured by household surveys. On the scoreboard, welfare income inequality continued to grow in other BRICs although by less than previously.

How sustainable is the

recent pattern of inclusive growth in Brazil? The PNAD shows that although income derived from pensions and social programs did grow, work income, which represents about 76% of average Brazilian income, increased more significantly, by 4.7% between 2003 and 2009. This suggests that improvements in living conditions are sustainable beyond government income transfers.

More generally, indicators of consumption (durable goods, housing, utilities, etc.) and productive income-generating assets (goods such as IT, education, and quality of employment) show that productive assets rose faster than consumption for 2003 through 2009. There was a 31.2% increase in productive assets and a 22.6% increase in consumption. Even during the global crisis productive assets rose 3.05% and consumption 2.49%. In the last six years Brazilians have been investing more in income-generating assets. Brazilians who invested in further schooling are now

## Looking into mobility between economic classes, about 29 million rose to the ranks of the middle class between 2003 and 2009.

getting proportionately more formal jobs, and thus more income.

As a consequence of sustained income growth, poverty continues its downward trend: the FGV estimates that, since 2003, 20 million people have risen out of poverty. Nevertheless, a significant number of Brazilians — 28.8 million — are still below the poverty line.

**The 95 million Brazilians in the middle class now represent 50.5% of the population and alone could decide an election.**

### Changing classes

Looking into mobility between economic classes, about 29 million rose to the ranks of the middle class C (see table) between 2003 and 2009; the 95 million Brazilians now in this group represent more than half the population (about 50.5%). In the same period, the upper classes (A and B) grew most in relative terms (39.6%), representing 6.6 million additional members; the total in this group is

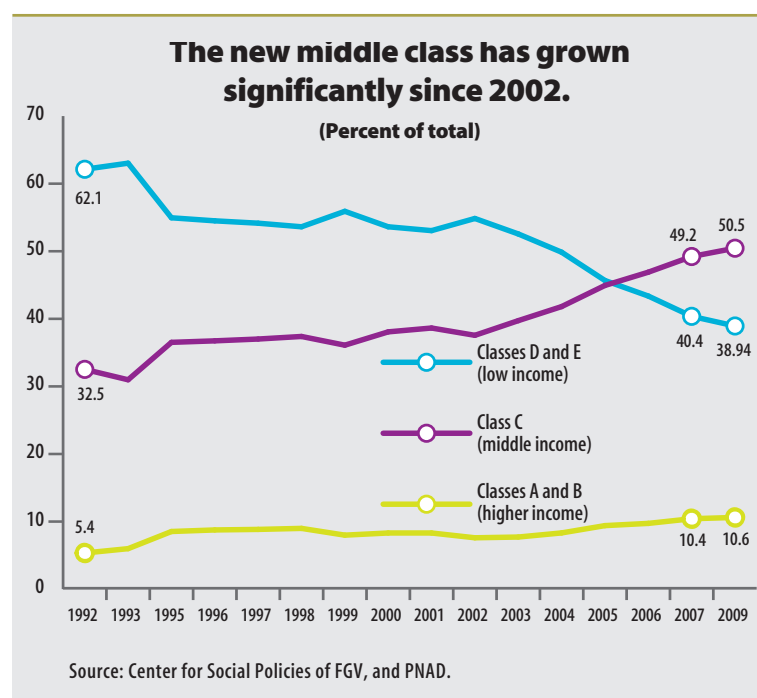
Economic classes Total household income (Brazilian reais)		
Classes	Lower bound	Upper bound
E	-	705
D	705	1,126
C	1,126	4,854
B	4,854	6,329
A	6,329	

now 20 million (10.5% of the population).

In sum, the middle and upper economic classes have increased by 35.7 million in the period since 2003; this means that these classes

grew in the last seven years by the equivalent of more than half of the population of the United Kingdom.

These numbers have two implications, one political and one economic. If the




95 million Brazilians in the middle class represent 50.5% of the population, this means that the class not only represents the median voter who decides the second round of elections but also alone could decide an election. The new middle class is also the dominant class economically. Its members hold more than 46% of Brazilian purchasing power; the upper classes have 44% and the lower classes only 9.7%.

### Rainbow

But how well have Brazilian pockets fared since the international crisis? This is the ultimate test of sustainability because the rest of the world is stagnant.

Family incomes from work in the six main metropolitan

regions of Brazil were hit hard in January 2009, when for that month alone there was a 6.8% increase in poverty. However, since February 2009, growth in Brazil has recovered to its pre-crisis rate. Not only has Brazil emerged quickly from the crisis of 2009 but income growth exceeded that in previous prosperous years since 2003: Income is growing twice as fast and inequality is falling almost as much as in the period up to 2008.

The greatest moment for researchers is not when they confirm what we already knew but when they are surprised by something they did not know. At the end of the most recent PNAD, the IBGE data revealed not just the pot of gold at the end of the rainbow but the rainbow itself. 

Since the end of recession, income has been growing twice as fast and inequality is falling almost as much as in the period up to 2008.



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