

DEVELOPMENT, INEQUALITY AND POVERTY IN BRAZIL

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Brazil, despite trying a wide range of economic policies over the years including import substitution and New Consensus, has failed to achieve the standards of living enjoyed by Western European countries. Brendan Graham tries to resolve this conundrum by examining the causes and the extent of poverty and inequality in Brazil. He finds that pronounced inequality and population growth are the key factors accounting for failed development of the country. Having deduced that, policy solutions are identified as, according to the author, 'Brazil has reached a crossroads in its development process'.

Introduction

Brazil is a vast country that occupies nearly half the area of South America, and borders all its countries but two (Chile and Ecuador). It has a population of 172.6 million people approximately (World Bank, 2004), making it the sixth most populated country in the world. In terms of natural terrain, Brazil is quite unfortunate in that a good deal of its land (83%) is not arable. This is due to the large amount of rugged hills and mountain plains, scrubland, and above all, the rain forests, which occupy about one half of the country's surface area. However, it has great potential in the industrial sector, which includes the manufacturing of steel, chemicals, consumer goods, and military hardware. As well as this, there is a range of natural resources such as cocoa, soy and iron ore. As one of the world's largest producers of hydroelectric power; energy supply does not pose a problem.

Brazil may be considered a sleeping giant in terms of its economy, in that it has all the potential to become one of the main players on the world's economic stage but has consistently failed to realise its promise. As indicated above, its industrial sector in particular has the possibility to become immense. Despite this, Brazil is still ranked only as a Newly Industrializing Country by the OECD and is commonly given the status of a Lesser Developed Country. Why is this? The two main underlying reasons are the inequality of income distribution and the poverty that exist in the country today. This is partly due to the policies pursued by the

Brazilian government, which has perhaps been guilty of pursuing economic strategies that focus on growth rather than development. It is the difference between growth and development that I shall be considering first.

Growth versus Development

The distinction between growth and development has come under much scrutiny for a number of years now. Perhaps the most significant era was in the 1960s and 1970s when the World Bank, one of the main proponents of growth strategies, shifted its focus to a more development-orientated approach. In academic literature, there has been no unanimous consensus. For example, Colman and Nixon (1986) state that “a number of writers have begun to question the generally accepted distinction between growth and development”.

It is important to clarify first what growth and development are. Growth can be described as changes in “the total value of wealth produced in a nation’s economy before any adjustments are made for indirect taxes, subsidies and depreciation” (McCarthy and Spencer, 1992), with GNP commonly used to measure these changes. Development has generally been more difficult to define. Put in its simplest terms, it can be described as the “development of people rather than things” (Owens, 1987). The question facing us is whether we can use measures of growth such as GNP and GNP per capita to measure changes in development.

It is impossible to find a definitive answer to this question. There are many who will point out the often-close correlation between the ranking of countries in terms of GNP per capita, and their ranking in terms of measurements of development, such as the HDI. For example, China is ranked 107th in the world in terms of its GNP, and is 106th in the world in terms of its development, as measured by the HDI, a difference of only one place. McAleese and Burke argue “GNP per head serves as a remarkably good proxy for more sophisticated measures of human welfare” (McAleese and Burke, 2000).

However, if we use Brazil as a case study, we can find many counter arguments to the theory that growth is a good indicator of development. Brazil has at some stages experienced rapid growth in its economy, in terms of GNP. However, as Todaro (2000) points out, “during these times of prosperity, most Brazilians have benefited very little”. Perhaps Brazil’s president between 1969 and 1974, Emilio Garrastazu, best summarized the situation existing in the country. When asked by a journalist what he thought of Brazil’s ‘economic miracle’ (referring to growth rates of over 10% per annum between 1967 and 1971), the president replied, “The miracle is good for Brazil’s economy, but bad for its people” (Goulet, 1983). Unless

economic growth results in an improvement for its people, as is clearly not the case for Brazil, the growth is somewhat meaningless.

As well as this, we must consider a number of the shortcomings of GNP as a measurement of growth, which will of course distort its accuracy if we use it to indicate development. A number of these failures are relevant to Brazil. For instance, GNP takes no account of non-monetary services. Americans, for example, may have a much higher tendency to hire cleaners for the house, painters for painting jobs, and so on. All the money generated is included in GNP. However, if Brazilians do not outsource for these types of jobs, their GNP will be lower. The development between the two nations is not actually different, but is made to appear so if we use GNP as an indicator for development. Conversely, GNP takes no account of environmental damage, which works against Brazil. Their pursuit of rapid growth has been disastrous for the environment. In 1995, for example, 110,000 square miles of rain forest were cleared, an all-time record (Todaro, 2000). While this type of environmental damage undoubtedly impacts upon the development of the country, in that the natural habitat is destroyed, GNP does not take this stunted development into account.

For one of the starkest examples of how widely growth and development can differ, one must look outside Brazil to a comparison between the economies of Sri Lanka and Guinea in 1992. At this time, the two countries had a similar GNP per capita, both at \$500. However, the difference between the two in terms of development was remarkable. Sri Lanka had a HDI figure of 0.665, compared to a mere 0.191 in Guinea. Breaking down how these figures were derived, we find that Sri Lanka's life expectancy was 71.2 years against Guinea's 43.9, the adult literacy rate was 89% compared to 27% in Guinea, and there was an infant mortality rate of 24 out of 1,000 in Sri Lanka, with the figure at 135 in Guinea (Todaro, 2000). The GNP per capita figure gives no account of this huge gap in development. It is clear, therefore, that income per capita has a tendency to be a very poor indicator of development.

So is the solution to use the HDI alone as a measure of development? Unfortunately this cannot be the case, for the HDI itself has shortcomings. While the HDI includes longevity, knowledge, and income per capita, it omits many of the other factors that contribute to development such as the aforementioned environmental damage, population growth, and, significantly for Brazil, inequality. This inequality has resulted in widespread poverty. So while Brazil had a HDI figure of 0.81 in 1995 (Todaro, 2000), this may be overstated due to the extensive inequality of income and the widespread poverty that is not fully taken into account by the HDI. These will be discussed in the next section. As McAleese puts it, "the single HDI value for each country is a national average which can conceal inequalities at a regional and sectoral level" (McAleese, 2001).

Whatever the case, there would still seem to be more than sufficient grounds to continue to focus on development rather than growth, and to consistently improve on our measures of development in order to aid us in achieving this goal. We cannot undervalue the merits of growth itself, for it gives the potential to achieve a greater quality of life for its people. But we cannot presume it to be sufficient.

Inequality

Inequality of income has for a long time been a thorn in the side of Brazil's economy, hindering both its growth and its development (for simplicity's sake we will consider GNP and GNP per capita, and HDI to be the measures of each respectively, even though we know them not to be fully accurate). It would seem that many of the problems facing Brazil's economy today stem from this inequality, either directly or indirectly, with a number of these problems strongly interlinked.

The figures relating to income inequality are startling, with a study of income distribution showing the extent of the problem. Almost half the income (48%) generated by Brazil's economy is received by only 10% of the people, with the highest 20% accounting for 64% of the income. This compares with a figure of 39.3% in Sri Lanka, despite the fact that Brazil has a GNP approximately six times higher (World Bank, 1999). Further to this, the poorest 20% of the people own a mere 2% of the income (Todaro, 2000). To put it another way, the richest fifth enjoys income about 25 times that of the poorest fifth (Mankiw, 2001). This distribution of wealth in Brazil is one of the most unbalanced of any country in the world, surpassed only by three African nations (Reuters, 2003). We can also consider the inequality in other areas outside of income. In agriculture, for example, the richest 1% own 44% of all arable land in the rural areas, with 50% of the farmers toiling on just 3% of the land (Todaro, 2000).

It is impossible for us identify any single reason for this inequality - a variety of explanations are plausible. Inflation exacerbated the problem of income distribution according to the Human Development Report for Brazil in 1996, as well as contributing to other problems such as growth and employment levels (UNDP, 1996). Inflation has been a persistent problem for Brazil's economy. In 1993 for example, staggering levels of hyperinflation at over 2,700% were reached before it responded to policy changes in 1994 (Todaro, 2000). As has been previously mentioned, the pursuit of growth over development strategies may have contributed significantly. Whatever the cause, we know that inequality has been a persistent trend in Brazil's economy for a number of years, and one that has caused widespread poverty. In Brazil, poverty is prevalent in a variety of forms. I will

describe where it exists, and the role that inequality has played in causing these types of poverty.

Growth and income per capita

Our first concern rests with growth for the country. As has been noted, even when the economy has been successful in terms of growth a minority, who have been able to make huge profits, from low industrial wages, has largely reaped the rewards. In effect, the periods of rapid growth have created a situation whereby the richest have become even richer, and the poor have found their struggle as difficult as before. More recently, productivity levels for the Brazilian economy have suffered due to the disparity in income distribution. Between 1985 and 1994, it experienced one of the lowest real incomes per capita in all of Latin America, averaging at -0.4% (Todaro, 2000). It would seem that the problems of growth and income distribution have fed into each other, creating a vicious circle. In other words, the disparity has contributed to poor growth levels, which have in turn further exacerbated the imbalance in income distribution. The 1996 Human Development Report for Brazil supports the argument that a negative link exists between poor growth and income inequality: “the interruption of the economic growth curve in the 1980’s caused the increase of inequity and poverty, accentuating the historical tendency towards the concentration of income” (UNDP, 1996).

With the stagnation of growth in Brazil, income per capita has dropped. Even recent changes have been significant, with GNP per capita at \$4,270 in 1997 dropping to \$3,580 recently (World Bank, 2004). There was a fall in the growth of real wages between 1980 and 1991 of -2.4% per annum (Mankiw, 2001). Those on lower incomes and middle incomes have been the worst hit. Therefore, this income inequality has had a direct impact on poverty. Forty million Brazilians live on \$1 a day or less, a situation commonly called ‘absolute poverty’. Seventy million people (40% of the population) live on \$2 a day or less (Todaro, 2000).

Unemployment

It would be misleading to think that poverty can only be thought of in terms of income per capita. It can relate to other areas; we can think of poverty as a form of severe underdevelopment. In Brazil’s case, pervasive inequality has caused poverty in the employment sector. The unemployment rate itself is a problem, with open unemployment currently at 7.1% (Banco Central do Brasil, 2004). Unemployment is particularly high in densely populated urban areas. However, this does not reveal the extent of the problem. With so many people earning so little of the country’s income, the nature of the work itself shows a form of poverty. In the cities, there are not nearly enough vacancies to absorb the high proportion of the work-seeking population, thus many people resort to activities such as street

vending, drug peddling and prostitution. In Sao Paulo, 43% of all employment is in the 'informal' sector, meaning self-employed jobs such as hawking, junk collecting and personal servants (Todaro, 2000). Those in the industrial sector are often exploited, working on a very low wage, but with work in such short supply, they cannot afford to leave their jobs. In the rural areas, the working conditions are sometimes appalling. Alan Thomas describes those of one particular area; the open-cast Serra Pelada gold mines in Northern Brazil: "Labourers...have a regular though very low income, working a 12-hour day carrying 120 lb sacks up 200-foot ladders with considerable risk of injury or work-induced illness" (Thomas, 2000). Again, inequality feeds into the problem in the employment sector, which further widens the income gap between the rich and the poor.

Living Conditions

Poverty exists in Brazil with respect to living conditions also. This is particularly true in the large cities, where the urbanization process has resulted in the growth of huge slums and shanty-towns. For example, in Rio de Janeiro the 'favelas' (the colloquial name for these types of slums) account for 60% of the total urban population. These settlements generally lack sewage systems, electricity and clean water. Of course, not just the large cities are affected. In Rio Branca, a town that lies in the province of Acre; in 1991 40% of urban homes were without running water and 88% had no sewage pipes. The town also serves as a useful example to illustrate the problem of rapid urbanization. In 1970, the town's population stood at 36,000 people. In the following 30 years, this had increased to over a quarter of a million (Thomas, 2000). With such impoverished conditions prevalent, there has been little chance for the development of Brazil's people. Again, it must be emphasised that inequality has been the driving force behind the existence of such conditions.

Other causes of poverty

This is not to say that the cause of all poverty-related problems can be attributed to inequality. Population growth, for instance, can equally have an impact. The population growth rate may not seem like a problem in itself; in fact the figure of 1.4% in 1998 is quite respectable when compared to other lesser-developed countries. Nevertheless, it has meant a population increase of over 10 million people in less than five years; 162.1 million people in 1998 to 172.6 million people today. Such growth makes it increasingly difficult to maintain a steady growth of income per capita, and the challenges of development become even trickier. Similarly, the huge debt amassed, twice that of the United States, is a major problem, as Mark Weisbrot pointed out in a recent BBC news report. In the long run, the task of solving the problematic issues of poverty are made more difficult still, with a

constant outflow of money to pay off the debt. However, inequality is a central link to many of these inter-related problems, and provides the main obstacle to Brazil being able to achieve sustained development for its people.

Solutions

Solutions to problems of such magnitude are certainly not simple. It is important for us to recognise first that the problems must be dealt with in a way that is specific to Brazil, so that it takes its history, culture and general way of life into account. It is important for us to avoid the mistakes of other models, which “ignored history, lumped diverse nations and cultures into one homogenous category, assumed common goals and values...and generally treated undeveloped countries with lofty contempt” (Quinn, 1988). With this caveat in mind, we can divide our solutions into two categories: how to enhance the potential of Brazil, and how to alleviate the problems of poverty.

Brazil has enormous potential in a wide range of areas. Industrial development is particularly significant in Brazil’s future. With many of the core components for a thriving industrial sector, including an energy source, natural resources, and a large potential workforce, the possibility for it to prosper is certainly there. However, other areas would need investment, for example in agriculture, so that raw materials could be available to industry, and in education. The benefits would be to provide employment for people, as well as increasing productivity. The government could possibly use tax incentives and the cheap cost of labour to encourage investment in industry from abroad. The Human Development Report of 1996 identifies other possible advantages Brazil has, such as favourable demographics, the business and technological training acquired, and the dimensions of the internal market (UNDP, 1996).

The development of industry would aid in alleviating the various problems of poverty. However, this alone would not be sufficient, especially with such a deeply rooted culture of inequality. The government has an important role to play in shifting the balance. The inequality would seem to be both the cause and result of poverty in Brazil - for living standards, the employment sector, and growth. Therefore, by tackling poverty itself, the problem of inequality may be partially solved. A decentralisation project, moving people from cities into rural areas may be appropriate in order to prevent over-crowding and squalid conditions in urban areas. Industries could be encouraged to base themselves in rural areas in order to create jobs. Investment would be required from the government to provide clean running water and sewage systems. Whatever specific action is taken, the aim should always be to improve the quality of life for Brazil’s people. One important step would be to

ensure some sort of minimum wage. This would automatically take money away from those profiting most and give it to the poorer people. However, such steps must be taken with great caution, as they can lead to further unemployment.

Conclusion

In many ways, Brazil has reached a crossroads in its development process. With the recent inauguration of the first working-class president, Mr Luiz Inacio Da Silva, there may well be a further concentration of efforts on development. Indeed, the president stated that his goal upon his appointment was for every Brazilian to have 'three square meals a day'. With careful management of this development, including a head-on tackling of the problems of poverty, and a shift in the balance of the embedded culture of inequality, Brazil might finally be able to fulfil its recognized potential and become a dominant figure on the world's economic stage.

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