Dilma 2.0: From Economic Growth with Distribution to Stagnation and Increasing Inequalities?

by Sérgio Costa | Freie Universität Berlin | sergio.costa@fu-berlin.de
Barbara Fritz | Freie Universität Berlin | barbara.fritz@fu-berlin.de
and Martina Sproll | Freie Universität Berlin | martina.sproll@fu-berlin.de

Brazil seems to have experienced a “moment of equality” (Therborn 2015) during the last decade. Income inequality, as measured by the Gini index, was reduced from 0.60 to 0.53 between 2000 and 2012. There have also been changes on other dimensions, for example in terms of race and gender inequalities. On the one hand, Brazil is following the trend of almost all Latin American countries. On the other hand, its inequality remains astronomically high in comparative perspective; the average Gini of the OECD world stands at 0.31 (World Bank data from 2012).

The jumping-off point of our analysis is the concept of “entangled inequalities.” This concept focuses on both the multidimensionality of inequalities, including socioeconomic, ecological, and power asymmetries, and on their historical and transnational character, that is, the interdependencies between domestic and exogenous and between past and present inequality structures (www.desigualdades.net; see Braig, Costa, and Göbel 2015). Against the background of this broad concept, we ask in this brief article: Which have been the driving forces of this moment of equality? Is it simply a parenthesis or a historical breakthrough in Brazil, a country once dubbed as “Belindia” for its coexistence of industrial diversification and historically rooted inequality since colonial and slavery times? How will the expected low economic growth in Dilma’s second term affect social inequalities?

Glory and Misery of PT-Driven Macroeconomics

Redistributive policies and their effects in Brazil by the PT-led government during the last decade have been shaped by a complex interplay of international and domestic factors. At the international level, despite huge swings, commodity prices remained high most of the time, pushing an expansion of mining and export agriculture activities in the country. Global capital flows were mostly abundant, even if highly short-term and unstable. Both terms of trade and financial inflows pressed for an appreciation of the dollar exchange rate in real terms of around 40 percent between 2004 and 2012.

At the domestic level, within the so-called macroeconomic “tripod,” priority has been given since the first Lula administration to inflation control, pursuing a policy of high floating interest rates and primary fiscal surpluses. The favorable terms of trade for Brazilian commodities such as soya and iron ore strongly added to growth, despite rather austerity-oriented monetary and fiscal policies. Here, the revaluation of the currency gave a helping hand to keep domestic prices under control. This harsh policy came in combination with active industrial policies, such as a public investment program and generous public credit, combined with wide-ranging social policies.

Economic orthodoxy then gave way, at least for several years, to a more developmentalist approach, during which strong growth, trade surpluses, and low inflation allowed a relaxation of orthodox policies. Starting gradually from 2006, but especially during and in the aftermath of the so-called global financial crisis, Brazil gained an international reputation for combining an anticyclical fiscal policy, capital inflow controls to dampen the upward trend of the currency, and an expansion of the social safety net.

However, the main drivers of growth have not resulted in productivity gains nor in an increase in the technology content of products made in Brazil. Much to the contrary: consumption spurred the massive import of consumer goods—made cheap by the high level of the Brazilian real against the US dollar—and a boom in the domestic service sector. The trade balance dramatically reflects this process of deindustrialization, pushed by a domestic consumption boom and a massively overvalued exchange rate. Still, in 2006, Brazil not only enjoyed a net trade surplus, but about two-thirds of this surplus was composed of intermediate or final consumer goods. In 2013, the country had a net trade deficit of manufactured or semimanufactured goods of some 60 billion US dollars, mirrored by an export surplus almost exclusively concentrated on commodities (IEDI 2014). As historical experience shows and the early months of 2015 have demonstrated once again, commodity prices do not remain high forever.

Also at the level of domestic politics, Dilma’s nomination of the new finance minister, Joaquim Levy, as well as other economic policy makers known for their links with financial markets, have dimmed the perspectives for economic heterodoxy and renewed economic growth.

Labor Market Dynamics between Formalization and “Precarization”

There is a broad consensus that the dynamic forces behind the recent decline of income inequality in Brazil since 2000 derive from favorable economic conditions with their positive effects for the labor market, improvement in average schooling as well as from a variety of social policies (UNDP 2013; Lustig, Pessino, and Scott 2013). Nonetheless, a closer look at current trends in labor and social policy reveals contradictory developments threatening the
sustainability of recent redistribution effects.

At first sight, a real turnaround can be ascertained compared to the dramatic deterioration of the labor market in the 1990s. No less than 20 million new jobs have been created since 2003 (Ministério da Fazenda 2014) and it is worth pointing out that many of these are in the formal labor market. This implies significant social changes as the mainly young and recently formalized workforce thus benefits from labor law and social provisions. Attempts at further inclusion have been reinforced by measures of the Lula-Dilma governments targeting formalization through programs for small and microenterprises and for domestic workers, and via stronger enforcement of labor legislation by the Ministry of Work and Employment.

Still, there is a controversy about the quality, qualification, and sustainability of the new formal-sector jobs. What kind of jobs have been created for which kind of workforce, and what are the underlying contradictory dynamics in the labor market? (See the debate in Sproll and Wehr 2014.) Again, complex entanglements with transnational processes have to be taken into account. First of all, in the wake of a flexible and financialized capitalist regime of accumulation, comprehensive restructuring of work and production processes as well as a marked deregulation and flexibilization of labor relations can be noted globally, also in Brazil. The degree of flexibilization of labor in the Brazilian labor market is extremely high, as for example revealed by a turnover rate of 43.1 percent in 2012 (against 41.8 percent in 2002); most employment situations had a duration of less than one year (45 percent lasted even less than six months), demonstrating insecurity and lack of stability of the newly created jobs (Druck 2014). Hence there is a contradictory situation of simultaneous formalization and precarization which also debilitates traditional social protection schemes linked to the period of employment. Outsourcing can definitely be considered one of the main drivers of precarization as it has become a generalized strategy in all economic sectors, including the public sector and state companies. This indicates a major transition even within the state apparatus itself. Outsourced work in 2011 corresponded to 23.5 percent of formal employment in Brazil (CUT 2011). Usually, outsourced work is more precarious in terms of payment, working time, working conditions, turnover rates, and health risks. There are diverse forms of outsourcing: among others, the number of self-employed has grown at great pace. These forms of precarization also clearly indicate a deterioration of the organizational capacities of trade unions. At the same time, a considerable inclusion of new segments of the population into formal employment can be noted, particularly young, black, and female workers whose employment conditions had formerly been limited to the informal sector. Recent changes in the labor market thus also point to new segmentations concerning class, race, and gender. However, the depicted processes of precarization impact on the reproduction of gendered and racialized structures of the labor market.

Social Policies and the Neglected Tax Reform

Since 2003, the federal government has implemented a broad range of social policies including both pro-poor measures and targeted programs for particular groups such as Afro-descendants, women, “traditional populations,” and so forth. The corresponding social outcomes are auspicious: between 2002 and 2013, the poverty rate (including extreme poverty) declined from 48.4 percent to 21.1 percent of Brazil’s population. In the same period expenditures on social policies jumped from 12.7 percent to 16.8 percent of GDP. Cash transfer programs in favor of poor families have occupied a prominent role during this phase. While a previous program benefited some 3.6 million families as of 2002, the Bolsa Familia program in 2013 was transferring average benefits of about R$142 to 14.1 million families (see CEPAL 2014 and Bielschowsky 2014). Among nominal recipients of Bolsa Familia stipends, 93 percent are women and 73 percent are persons of color. Despite their crucial importance in reducing poverty, Bolsa Familia and other cash transfer programs have only a negligible effect on mitigating income inequality: these programs can explain only a small fraction of the reduction in the Gini coefficient (Medeiros and Souza 2013; Lavinas 2013). Among the focal policies implemented since 2003, the quotas law passed in 2012 is probably the most comprehensive measure. According to the new law, 50 percent of all places to study at federal institutions of higher education are reserved for students coming from public schools in proportion to the share of black and indigenous population living in the respective region. Since about 1.1 million of 7.3 million enrolled undergraduate students in 2013 in Brazil studied at federal institutions (INEP 2014), and blacks and indigenous represent about 51 percent and 0.5 percent of Brazilian population, the federal quotas program, if fully implemented, will distribute about 283,000 study places according to racial and ethnic criteria.

In recent times, income inequalities between women and men and in a slighter
magnitude between blacks and whites have decreased. In 2002 women’s average income stood at 49.9 percent of the male average, rising to 58.4 percent in 2012; average Afro-descendant income in 2002 corresponded to 47.2 percent of the average for whites, increasing to 54.6 percent in 2012 (IPEA 2013). This reduction of socioeconomic distance between women and men as well as between blacks and whites cannot be explained, at last not solely, by gender- and race-related policies. While these policies improve blacks’ and women’s agency, these policies contain crucial relevance for mitigating power asymmetries à la longue, but the measures have reached so far only a small fraction of Brazil’s total female and black population, producing minimal socioeconomic effects at the aggregate level.

Much more relevant here is the national minimum wage. By law, annual adjustments are equal to the sum of inflation in the last 12 months plus the economic growth rate from two years earlier. This policy has led to a real increase of the minimum wage of some 75 percent between 2002 and 2013. Since women and blacks are still overrepresented in low-wage labor sectors, they benefit more from the increasing minimum wage than do men and whites.

The aggregate impact of current minimum wage policy is also expressive in terms of general redistribution, as detected by various econometric simulations which show that the rising minimum wage is the most important driver of recent decline of inequalities in Brazil (Saboia 2014). Although the new cabinet of Dilma Rousseff decided to extend the current adjustment policy, recent (and expected) very low economic growth rates will necessarily lead to a stabilization of real minimum wages with negative consequences for redistribution in terms of both class and gender- and race-related inequalities.

Finally, tax policies, as a decisive instrument for promoting redistribution, have substantially changed since Lula came to power in 2003. Tax revenues encompassing about 36 percent of GDP are comparable with numbers found in various OECD countries. However, the disproportionate participation of indirect taxes, responsible for about half of revenue, the modest taxation of income (the highest income rate is 27.5 percent; in Sweden, it is 56.6 percent), and the mild burden of capital and finance profits lead to a regressive impact of taxes in Brazil’s final income structure. In Brazil, taxation policies do not decrease but rather increase the Gini coefficient.

The concentration of wealth is also impressive. Based on analysis of 25 million tax declarations, Castro (2014) concludes that only about 406,000 taxpayers (about 0.2 percent of the national population) possess about 47 percent of all declared properties and titles. According to his simulations, a “simple” introduction of a tax rate of 15 percent for capital and financial profit combined with brackets of 35 percent and 40 percent for high salaries could reduce the Gini coefficient by about 20 percent.

Since 2003, the PT has never felt strong enough to promote major tax reforms. In the current political coalition directed by Dilma Rousseff, seen by critical voices within the PT as a “neoliberal backlash,” a progressive reform of the Brazilian tax system is not visible on the horizon.

**Conclusion**

During the party’s 12 years in power, the two PT presidents have achieved impressive economic and social results. In this period, GDP per capita grew about 64 percent, poverty was drastically reduced, and income distribution became notably less unequal. These triumphs derive more from specific sectoral policies and a favorable external economic conjuncture than from structural change induced by a coherent political project. Economically, persistent low productivity in the industrial and service sector combined with a “re-primarization” of exports in a context marked by falling commodities prices have stifled growth. Socially, existing drivers of redistribution seem to have reached their limit. In this context, reviving economic growth and continuing to promote social redistribution require structural reforms in both fields. By this, we mean countercyclical public investments in order to promote productivity and kick-start the economy, and also the introduction of comprehensive redistributive policies such as progressive taxes and structural labor market reforms that can curb precarization.

Since January of this year, the embattled Dilma Rousseff has opted essentially for the opposite strategy: cuts in public expenditures, a proposed tax reform with no progressive redistribution, and concentration on social policies that have low redistributive impact. For this she was rewarded with a contraction of −0.2 percent in GDP growth in the first quarter of 2015. The most likely results of this strategy are continued economic stagnation and rising social tensions.
References

Braig, Marianne, Sérgio Costa, and Barbara Göbel

Bielschowsky, Ricardo

Castro, Fábio Avila de

CEPAL (Comisión Económica para América Latina y el Caribe)
2014 Panorama social de América Latina 2014. Santiago de Chile: CEPAL.

CUT (Central Única dos Trabalhadores)

Druck, Graça

IEDI (Instituto de Estudos para o Desenvolvimento Industrial)

INEP (Instituto de Estudos e Pesquisas Educacionais Anísio Teixeira)

IPEA (Instituto de Pesquisa Econômica Aplicada)
2013 Retrato das desigualdades de gênero e raça. 4th ed. Brasília: IPEA.

Lavinas, Lena

Lustig, Nora, Carola Pessino, and John Scott

Medeiros, Marcelo, and Pedro Herculano G. Ferreira de Souza

Ministério da Fazenda
2014 CAGED – Cadastro Geral de Empregados e Desempregados, junho/14, 17 de julho de 2014.

Saboia, João

Sproll, Martina, and Ingrid Wehr, eds.

Therborn, Göran

UNDP (United Nations Development Programme)