## Case Study 1

# Progress in the Struggle for More Meaningful Development: Brazil

There are two faces of development in Brazil. World-competitive industry coexists with stagnant, protected sectors. Modern agriculture coexists with low-productivity traditional practices. But Brazil is in the midst of a spurt of economic development that might herald a lasting transformation for a country often considered synonymous with inequality and unmet potential. Economic growth has returned, health and education have improved markedly, the country's democratization has proved durable, and inequality—among the highest in the world—has at long last started to fall. But there is still a long way to go to achieve genuine development in Brazil. Growth remains vulnerable to world commodity prices, and social progress remains tenuous as revealed by the widespread protest demonstrations that erupted in 2013.

Many Brazilians have been frustrated with the uneven pace of development and are known for telling self-deprecating jokes such as "Brazil is the country of the future—and always will be." Brazil has even been cited as an example of a country that has experienced "growth without development." But despite huge inequities, Brazil has made economic and social progress. Extremely high economic inequality and social divisions do pose a serious threat to further progress in Brazil. But there are growing reasons to hope that Brazil may overcome its legacy of inequality so that the country may yet join the ranks of the developed countries.

Brazil is of special interest in part because its growth performance from the 1960s through the early 1980s was the best in Latin America, with at least some parallels with East Asian export policy and performance, although Brazil had a larger role for state-owned enterprises, much lower education and other social expenditures, and much higher inflation.

Brazil's performance is followed widely in the developing world, as it is the largest and most populous country in Latin America; with close to 200 million people, it is the world's fifth-largest country in both area and population. Brazil is consolidating its role as the lead country in the Latin America and Caribbean region; it is a key member of the G20 leading economies; and one of a group of developing countries pushing for fairer international trade rules. It is one of four influential countries referred to by the media and financial analysts as the "BRICs" (Brazil, Russia, India, and China, often expanded to include South Africa).

Although over two decades of military rule ended in Brazil in 1985, an ongoing debt crisis, years of stagnant incomes, and extremely high inflation followed. It took drastic policies to reduce inflation, and incomes continued to stagnate in the aftermath. The 1980s and the 1990s have been described as "lost decades" for development. So the recent signs of palpable progress, especially since about 2004, have been welcomed with relief and growing enthusiasm among many Brazilians. Although the country remains politically divided between the center-left and the center-right, a striking convergence has been achieved on policies agreed to be necessary for equitable and sustained growth, ranging from active poverty reduction programs to relatively orthodox monetary policies. The economy has been growing more rapidly (if inconsistently), in part due to commodity exports to China, from soybeans to iron ore. One persistent worry is whether the economy could continue to grow rapidly if commodity prices, which have been much higher in recent years, revert to their very long-term trends for decline (see Chapter 12), or the slowing growth in China curtails demand for Brazil's products—both genuine worries by 2013. High crime remains a problem, especially in the *favelas* (slums).

But despite the nation's early and now resumed growth, other indicators of development in Brazil lagged, eventually undermining growth prospects. Benefiting from much higher incomes than Central American countries and spared the destructiveness of civil war, Brazil, it would seem, should have been in a much better position to fight extreme poverty and improve economic equity and social indicators. Instead, despite recent improvement, the country has continued to see a higher percentage of its population in poverty than would be expected for an upper-middle-income country. Brazil remains one of the countries with the highest levels of inequality in the world. So how should Brazil's development performance be evaluated and future priorities chosen?

## Income and Growth

Growth is generally necessary, though not sufficient, for achieving development. In 2011, Brazil's per capita income was close to $11,000, still well under a quarter of that of the United States but more than nine times greater than that of Haiti (World Bank data).

Growth has been erratic, with substantial swings over time. Data for growth of gross domestic product (GDP) per capita are sometimes presented for the periods 1965–1990, when for Brazil it was 1.4%, and for 1990–2000, when it was 1.5%. This appears to suggest a remarkable stability. But the former figures combine the booming years from 1967 to 1980 and Brazil's "lost decade of development" of the 1980s. Nevertheless, performance through this period was still better than most other countries of Latin America. In 2000–2011, average annual per capita growth rose to about 2.8% (World Bank data). But wide swings continue, with a spike close to 7% in 2010 slowing to a near standstill by the end of 2012.

Brazil has had an export policy stressing incentives for manufacturing exports, as well as protections for domestic industry, with numerous parallels with Taiwan and South Korea in their earlier formative stages (see Chapter 12). Its percentage share of manufactured exports in total exports grew dramatically, reaching 57% in 1980, although it dropped dramatically during the lost decade of the 1980s. Although the share of manufactured exports increased again, reaching a new peak of 58% in 2000, it has fallen steadily since, to 45% in 2008, and by 2011, this figure had fallen to just 34% (World Bank data). Although part of this decline reflected an increase in commodity prices, it is still a striking reversal that probably increases the vulnerability of the Brazilian economy (see Chapter 12). Brazil must decide whether to respond to its good fortune of a period of high commodity prices as a spur to action or an excuse for complacency.

Brazil's prolonged status as a highly indebted country (see Chapter 13) was a substantial drag on growth performance, as were continued problems with infrastructure. Recently, however, the Industrial, Technological and Foreign Trade Policy (*PITCE*) program has been actively working to upgrade the quality and competitiveness of Brazilian industry.

High and growing taxes may have also slowed formal-sector employment growth. The overall tax burden increased from about 25% of gross national income to nearly 40% in the decade from 1993 to 2004, before leveling off (it was about 38% in 2012). Payroll taxes are high and as many as half of Brazil's labor force now works in the informal sector, where taxes may be avoided (and labor rights and regulation circumvented).

However, Ricardo Hausmann, Dani Rodrik, and Andrés Velasco argue that Brazil does not lack for productive investment ideas, nor is concern about government behavior the factor holding back investment. Using their decision tree framework to identify the most binding constraints on economic growth (see Chapter 4), Hausmann, Rodrik, and Velasco argue that Brazil has high returns to investment and is most constrained by a lack of savings to finance its productive opportunities at reasonable interest rates. In raising domestic savings, Hausmann has emphasized the importance of "creating a financially viable state that does not over-borrow, over-tax or under-invest."

Technology transfer is critical to more rapid growth, competing internationally, and beginning to catch up with advanced countries. Brazil has made notable progress. The country is viewed as being at the cutting edge of agricultural research and extension in commercially successful export crops such as citrus and soybeans. After a disastrous attempt to protect the computer industry in the 1980s was abandoned, Brazil has begun to see the expansion of a software industry, as also seen in India. But Brazil has not absorbed technology to the degree that East Asian countries have.

## Social Indicators

Brazil's human development statistics compare unfavorably with many other middle-income countries such as Costa Rica and quite a few low-income countries, let alone with the advanced industrialized countries. As of 2007, Brazil ranked just 85th on the United Nations Development Programme's 2013 Human Development Index (explained in Chapter 2), eight positions lower than would be predicted by its income, and below such countries as Peru, Mauritius, and Azerbaijan.

In Brazil, life expectancy at birth in 2011 was 73 years, compared with 81 in South Korea. Brazil's under-5 mortality rate is 16 per 1,000 live births, an impressive improvement from its 2000 rate of 36 per 1,000 but still high compared with 10 in similar-income Costa Rica and just 5 in Korea (World Bank data). But about 7% of all children under the age of 5 still suffer from malnutrition in Brazil (World Bank data).

Brazil suffers from a high incidence of child labor for its income level, as a World Bank study and reports by the International Labor Office have underlined. As many as 7 million children still work in Brazil, despite the country's having officially made the eradication of child labor a priority. (For an analysis of the problems of child labor and appropriate child labor policies, see Chapter 8.) In the education sphere, Brazil's officially reported adult literacy rate has now risen to 90% (independent observers have concluded that Brazil's effective literacy is under 50%), while that of similar-income Costa Rica is 96%. Helping explain this difference, in Costa Rica, six years of school attendance are mandatory, and 99% attendance is reported.

The UNDP concluded that

> the unequal distribution of social spending is no doubt a major factor in maintaining inequality and thus poverty.…The bulk of the benefits go to the middle classes and the rich. Close to a third of the poorest fifth of the population does not attend primary school. But the sharpest differences show up in secondary and tertiary education. More than 90% of the poorest four-fifths of the population do not attend secondary school, and practically none make it to universities. Only primary schools end up being relatively targeted to the poor, not because the government succeeds in targeting resources, but because richer households send their children to private schools. Public expenditures on secondary and tertiary education are very badly targeted to the poor. For scholarships—chiefly to graduate students—four-fifths of the money goes to the richest fifth of the population.

In fact, with public universities offering free tuition to mostly high-income undergrads as well as grad students, the distortion is even greater. Moreover, corruption and waste limit the effectiveness of government expenditures. And the quality of primary schools in poor areas remains low.

So while the persistence of poverty in Brazil is undoubtedly due in part to mediocre growth relative to East Asia or to Brazil's potential, the most important explanation is the highly concentrated distribution of income, worsened by inequitable social spending.

Development depends on a healthy, skilled, and secure workforce. Ultimately, a slower improvement in health, education, and community development can feed back to a slower rate of growth, a process that has plagued Brazilian development. A hopeful sign is the role played now in Brazil by a free press, strengthened basic rights, and a very active but peaceful political competition. These elements can be a precursor of expanded capabilities in Amartya Sen's analysis.

## Poverty

Perhaps the most important social indicator is the extent of extreme poverty among a country's people. Poverty has been high in Brazil for an upper-middle-income country. There has been progress; a World Bank study found that Brazil's average per capita income grew by 220% in the high-growth years from 1960 to 1980, with a 34% decline in the share of the poor in the population. On the other hand, similarly sized Indonesia grew 108% from 1971 to 1987, with a 42% decline in poverty incidence. And some of the ground gained on poverty was subsequently lost in Brazil in the 1980s and 1990s. According to World Bank estimates, in 2009, some 10.8% of the population of Brazil lived on less than $2 per day. And according to the most recent data, 6.1% actually lived in extreme poverty, with incomes below $1.25 per day (World Bank, *2013 World Development Indicators*), worse than some low-income countries such as Sri Lanka. But this may actually be an underestimate. According to a Brazilian government research institute cited by the United Nations Development Programme, an even more shocking 15% of Brazilians have incomes of less than $1 a day. However, poverty is now falling, and the recent Bolsa Familia (family stipend) government program has received high marks for addressing poverty through its "conditional cash transfers" of resources to poor families, provided that they keep children vaccinated and in school; it is similar to the Mexican Progresa/Oportunidades program that is the subject of the end-of-chapter case study for Chapter 8. It must also be mentioned that physical security remains a pressing problem in Brazil, with violent gangs having extensive sway. This problem can have the greatest negative impact on people living in poverty.

### Inequality

For decades, Brazil's inequality in income (as well as in land and other assets) has ranked among the worst in the world. High inequality not only produces social strains but can also ultimately retard growth, as examined in detail in Chapter 5. The degree of income inequality in Brazil is reflected in the low share of income going to the bottom 60% and the high share to the top 10% of the population, as seen in the following income distribution data for Brazil (2009 survey data, from the *2013 World Development Indicators*):

| Fraction of Population | Share Received (%) |
|---|---|
| Lowest 10% | 0.8 |
| Lowest 20% | 2.9 |
| Second 20% | 7.1 |
| Third 20% | 12.4 |
| Fourth 20% | 19.0 |
| Highest 20% | 58.6 |
| Highest 10% | 42.9 |

As these figures show, the top 10% of income earners receive about 43% of national income, while the bottom 40% receive just 10%. The UNDP concludes that high inequality is the reason for the high level of extreme poverty and the very slow rate of poverty reduction. Inequality in assets is also high. In recent years, inequality in Brazil has moderated somewhat, although it remains among the highest in the world. In addition to Bolsa Familia and other social program innovations, Brazilian analysts generally conclude that a recent increase in (and enforcement of) the minimum wage also has reduced inequality; this has had, wide impact as many local government workers receive the minimum wage.

### Land Reform

Land is very unequally distributed in Brazil, and there is both an efficiency and a social equity case for land reform (a subject discussed in Chapter 9). But land reform has been repeatedly blocked in Brazil by the political power of large plantation owners (*fazenderos*). In response, impoverished farmers in the "landless movement," or MST, have increasingly seized land, often arable but unused land within large plantations. Thousands of families have taken part. Farmers have also settled in fragile rain forest areas, finding themselves unable to acquire land in areas that are more agriculturally suitable and less ecologically sensitive. In response, the government has initiated a land reform program, but the results to date have been modest in relation to the scope of the problem.

### Sustainability of Development

As described in Chapter 10, growth that relies on running down the natural environment is contrasted with sustainable development, which preserves the ecology on which future income and people's health vitally depend. But Brazilians across the political spectrum appear determined not to acknowledge destruction of forests as a genuine or pressing problem. Deforestation of the Brazilian Amazon rain forest displays conflicts between short- and long-term development goals and the consequences of huge inequality and state intervention on behalf of the rich. Despite their destructiveness, economic activities in the Amazon often benefited in the past from ill-conceived subsidies, now curtailed. Grandiose showcase development projects and schemes, such as subsidized ore mining, charcoal-consuming industries, and cattle ranching, were carried out on a large scale.

The encouragement of rain forest settlement seemed to be a politically inexpensive alternative to land reform. In the end, the best lands became concentrated in the hands of large, powerful farmers. Rights of indigenous peoples were flagrantly violated, with some terrible atrocities committed by settlers. Ecological campaigners and activists among rubber-tappers whose livelihoods were threatened were attacked and sometimes murdered. In the meantime, much of these fragile lands appears to have become irreversibly degraded. Many of the subsidies have now been withdrawn, and at least some protections and "extractive reserves" have been put in place, but rain forest destruction is hard to reverse. Forest management in other tropical rain forests has led to a rapid growth in ecotourism and very high, profitable, and sustainable fruit yields. Products that can be harvested without serious ecological disruption include fibers, latex, resins, gums, medicines, and game. However, it is clear that this cannot protect land on the vast scale at risk. Because the rest of the world benefits from Brazil's rain forests through prevention of global warming, ecological cleansing, and the irreplaceable biodiversity needed for future antibiotics and other medicines and goods, the international community should be prepared to pay something to ensure its continuation, such as paying forest dwellers to preserve and protect natural resources. Financial support for land reform outside sensitive areas is one clear direction.

## Problems of Social Inclusion

Few discussions about poverty in Brazil pay much attention to race. But about half of the population of Brazil is of African or mulatto heritage. As a result, it is sometimes noted that Brazil is the world's largest black nation after Nigeria. And most of the poor in Brazil are black or mulatto. Although racial discrimination is a crime in Brazil, no one has ever been sent to jail for it. According to one estimate, the average black worker receives only 41% of the salary of the average white worker. Most of the millions of Brazilians living in the worst *favelas*, or shantytown slums, are black. The endemic extreme poverty of the Northeast, which has lagged development standards of the Southeast for decades, afflicts indigenous and mulatto populations. Although the Northeast has only about 30% of Brazil's population, an estimated 62% of the country's extreme poor live in the region. Black representation in government is shockingly rare, even in the states where nonwhites make up a majority of the population. University places are overwhelmingly claimed by whites. Some progress has been made, but Brazil may need a stronger movement comparable to the U.S. civil rights struggle of the 1960s. But in the absence of overt Jim Crow laws, it is sometimes hard to identify the appropriate target. Some form of meaningful affirmative action may be the only way to begin to overcome the problem.

## Conclusion

It might be most accurate to say that Brazil has experienced some economic growth without as much social development as could be expected from its income level, rather than the more blanketing "growth without development," which applies better to countries such as Pakistan, Gabon, and Equatorial Guinea. But continuing racial disparities, unjust treatment of indigenous peoples, lack of access of the poor to fertile land, extremely high inequality and surprisingly high poverty for its income level, and the danger that growth will prove ecologically unsustainable all mean that Brazil will have to continue its recent efforts to make social inclusion and human development, as well as environmental sustainability, top priorities if it is to resume and maintain rapid economic growth, let alone achieve true multidimensional development.

Part of the explanation for high rates of income poverty and poor social indicators in Brazil is the relatively slower growth that has prevailed since the early 1980s, excepting its recent spurt. But a major explanation is that government social spending on health, education, pensions, unemployment benefits, and other transfers are going to the well-off, frequently to those in the top 20% of income distribution. Government policy has often had the effect of worsening inequality rather than softening it. The Bolsa Familia program is an important recent exception that has made a substantial impact in Brazil. Bolsa Familia transfers income to poor families on the condition that their children stay in school, thus providing current consumption as well as the potential of future higher earnings for families trapped in chronic poverty.

In November 2002, the left-leaning labor leader Luiz Inacio Lula da Silva, known universally as

Lula, was elected president of Brazil on a platform promising greater equity. This generated a lot of excitement in the country, with renewed hopes for greater social inclusion; his first term saw some renewal of growth and a greater public policy focus on poverty, with some improvements in the *favelas* and better rural nutrition, for example, but the rate of progress on social inclusion was disappointingly slow for many Brazilians. Lula was reelected in 2006, and the general view is that the following four years went well, with steadier growth and significant improvements in many social indicators; and Lula's Worker's Party successor, Dilma Rousset—who was imprisoned and tortured during military rule—won the 2010 presidential election to become the first woman to lead Brazil. But substantial unrest emerged in the country in 2013, and many questions remain. Many Brazilians find the contrast between slum neighborhoods and gleaming new sports facilities that can be seen from them a grating reminder of dubious development priorities. Can steady progress be made on the racial divide, physical security, environmental decay, poverty, inequality, high borrowing costs, needed diversification of exports, and high and inefficient government spending? If so, the outlook for Brazil is bright.

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*Notes:* The Instituto Brasileiro de Geografia e Estatística (IBGE) provides data on Brazil that supplements that found in the World Development Indicators and other international sources. See www.ibge.gov.br/english. This case study benefits greatly from annual exchanges on evolving policies and conditions with Brazilian civil servants.