4. Social policy and reduction of inequality

THE NEW PATTERN OF GROWTH OF THE BRAZILIAN ECONOMY IN THE RECENT DECADE AND THE ROLE OF THE STATE POLICY

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The paper analyzes the pattern of growth of the Brazilian economy from 2004 to 2011. According to the most recent data, the average annual growth rate of the Brazilian economy in this period was 4.3%. This is almost twice as fast the growth observed in the two decades immediately before 2004 – though only slightly less than two thirds the average annual growth rate during the 1947 – 1980 years.

The hypothesis is that the main determinant of these results was the policy of inclusive growth, although the importance of the external sector. In fact, the results combines three factors: (i) the international scene which favored sectors linked to commodities; (ii) the improvement of income distribution that occurred as a result of the increase in the minimum wage, in public transfers of income and also lending to households; (iii) the role of the State through the public Investments and finance from banks to the private sector.

The focus of the paper is the characterization of these distinctive elements of the Brazilian economy in recent years. One main question that arises of the data is whether this change in the pattern of growth can be considered permanent or temporary, or in other words if the Brazilian economy would have started a new growth regime or an inclusive growth regime.

One fundamental issue is that the Brazilian Constitution (enacted in 1988) is classically social-democrat in nature. It rules, for example that access to the public health care system should be universal and free of charge; and providing ample public financing also for social assistance and public pensions is not widely known or taken into consideration in international comparisons.

It so happens that, in the last 24 years, the country has sought continuously to create and develop the institutions implied/required by its Constitution. In a country of less than 200 million – more than 25 million people receive public pensions. Access to the public health care system is as mentioned, free for all. Close to 4 million poor people (with disabilities and/or older than 65 years) receive monthly stipends from the government. More than 8 million people receive unemployment benefits. More than 13 million families (and 40 million people) receive cash transfers from the government.

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Most these public transfers/benefits are linked to the minimum wage – i.e. when the latter increases the former increase, as well.

These increases in (minimum wages and) public transfers – made possible by increases in the aggregate tax burden – have played a crucial role in the current Brazilian inclusive growth model. The year of 2004 marks the beginning of growth experience based on the expansion of domestic markets, which was possible by exogenous increases in world trade. More precisely, the exogenous growth push in 2004 increased tax revenues, and that, in turn, made possible significant increases in the minimum wages and government transfers to households despite the fact that the government kept running primary surpluses close to 3% of GDP during virtually the whole period in question.

Indeed there is a consensus among experts that the rise in the minimum wage and government transfers played a crucial role in the decline of personal income inequality observed in the last decade (besides, of course, allowing considerable increases in the disposable income (and life conditions) of tens of millions.

The conclusion is that there is no reason why domestic-driven growth should not persist in the near future, although could not necessarily mark a new pattern of development.