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An Overview of the Strategy of Income Distribution in Brazil

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1. Introduction

The “Ideal of Pareto” tells that there is efficiency in the economy when a position of someone becomes better without any deterioration of the other’s position. The distribution of income in the society is correlated to the possession of the production factors and the price its owners get in the market. Obviously, factors like the personal abilities and the transmission of goods through inheritance contribute to an unequal distribution of wealth. However, the improvement of some people is made upon the expenses of others, therefore we must forget the ideal of Pareto and delegate responsibility to each society to define what they consider just levels of income and wealth distribution.¹ In the last analysis the level of income distribution that each society thinks is acceptable is a cultural value.

These questions are being substituted for discussions of measures that have more impacts on the gravest problems of misery and the increase of quality of life of the poorest classes of society. Considering that distributive policies are based on taking wealth from someone and giving to others, the most efficient fiscal mechanism is a combination of progressive taxation and transference of income to those people of the poorest classes of society, since the growth itself can not be translated into a necessary inequality reduction.²

The problem of inequality is very serious in Brazil, where the distribution of wealth is one of the worst in the world as a whole and where there is at least 12.9% of the population living in extremely poverty.³ However, the income distribution has improved since 1993 and consistently from 2003. The main reason for this improvement in income distribution is the reduction of poverty, besides the fact that some decrease in the income of the richest people was observed.⁴ Among the main reason for this reduction lays in the decreased in food prices, improvements in scholarships and mainly the advances in social programs, social welfare incomes and a real increase in the minimum wage.⁵

¹ Giacomoni, p. 40.

² Kakwani, Néri and Son, p. 32.

³ Velloso, Albuquerque et al., p. 33.

⁴ Ipea, p. 27.

⁵ Soares, Pedro; <http://www1.folha.uol.com.br/folha/dinheiro/ult91u103015.shtml>.

It is not necessary to say that we can see poverty by its many aspects. One of the greatest obstacles to plan solutions about the problem of alimentation lays in the limited knowledge that we have about the problem as a whole, as a simultaneous complex of biological, economic and social manifestations. Beyond that, in the last analysis, this situation of economical and social disarray is consequence of the inaction of the Political State to serve as equilibrate power between private and collective interests.⁶ However, for methodological purposes, poverty in this paper will be treated more intensely under the aspect of inequality in income distribution between rich and poor people within the country.

Obviously, poverty as a whole will take a long time to deal with, thus one of the issues to be focused on has to do with intergenerational transmission of poverty. The first assumption considers education as a key factor to break intergenerational poverty transmission. The second assumption is that there is a trade-off between child labor, with its consequent less education and human capital effects, and lifetime poverty.⁷ Poverty compels poor adults to send their children to work to increase family income trapping the family into an intergenerational poverty.⁸

Therefore, the main purpose of the paper is to make an overview of the recent income distribution policies, specially the programs *Bolsa Familia* and Continued Cash Benefit Program – BPC, analyzing their contributions to eradicate poverty and to minimize the anomalous gap between the income of the richest and the poorest people in Brazil.

2. Poverty in Brazil

The intention here is to briefly analyze quantitatively and qualitatively the bulk of the gap distortion between rich and poor in Brazil, comparing it with other countries. In addition to that, it is important to see who the poor people in Brazil are and where they live.

⁶ Castro (1980).

⁷ Cardoso and Souza, p. 6.

⁸ Baland and Robinson, p. 665.

In 2004, 19.8 million people (11.3% of the population) were extremely poor, living with a monthly family income per capita up to ¼ minimum wage, and 52.5 million (30.1% of the population) were poor, living with a monthly family income per capita up to ½ of the minimum wage.⁹

The World Bank uses the Gini Index to measure income inequality and compare this phenomenon with other countries, and evaluate the measures of the average ratio between the richest 20% (quintile) of the population and the poorest quintile, where the bigger the number the worse is the distribution of income within the country or region. In terms of big regions, it shows that the average ratio in South Asia is 4. In high-income countries, as well as in East Asia, Middle East and North Africa it is 6. In Sub-Saharan Africa it is 10, and 12 in Latin America. In Brazil this ratio is 30, which demonstrates the extremely bad position of the country and the bulk of the problem not only of poverty, but of income distribution.¹⁰

Obviously, the problem of income distribution can be seen itself by two sides. One is inherent to the development process of capitalism and is related to the personal capacities of each person in their natural desire to increase its own level of life and wealth. The other side of the problem is related to historical distortions that affect a huge amount of people who are surviving under extremely poor conditions during the times. In this case, once they do not have running water, a unique expectation is to survive day-by-day and the most plausible choice is to walk carrying water for several miles, three or four times a week. For example, this has happened over centuries Northeast Brazil. This phenomenon of keeping poverty over generations is known as intergenerational poverty. There are regions and situations where the normal process of capitalism's evolution will take sufficient time to come and produce its effects that many generations will be born and die in the same conditions. This is not a frontier situation where it is possible to wait for the natural course of the events. This is an extremely hard situation and the State has to do something to relieve the hard lives of these people affected by the intergenerational poverty.

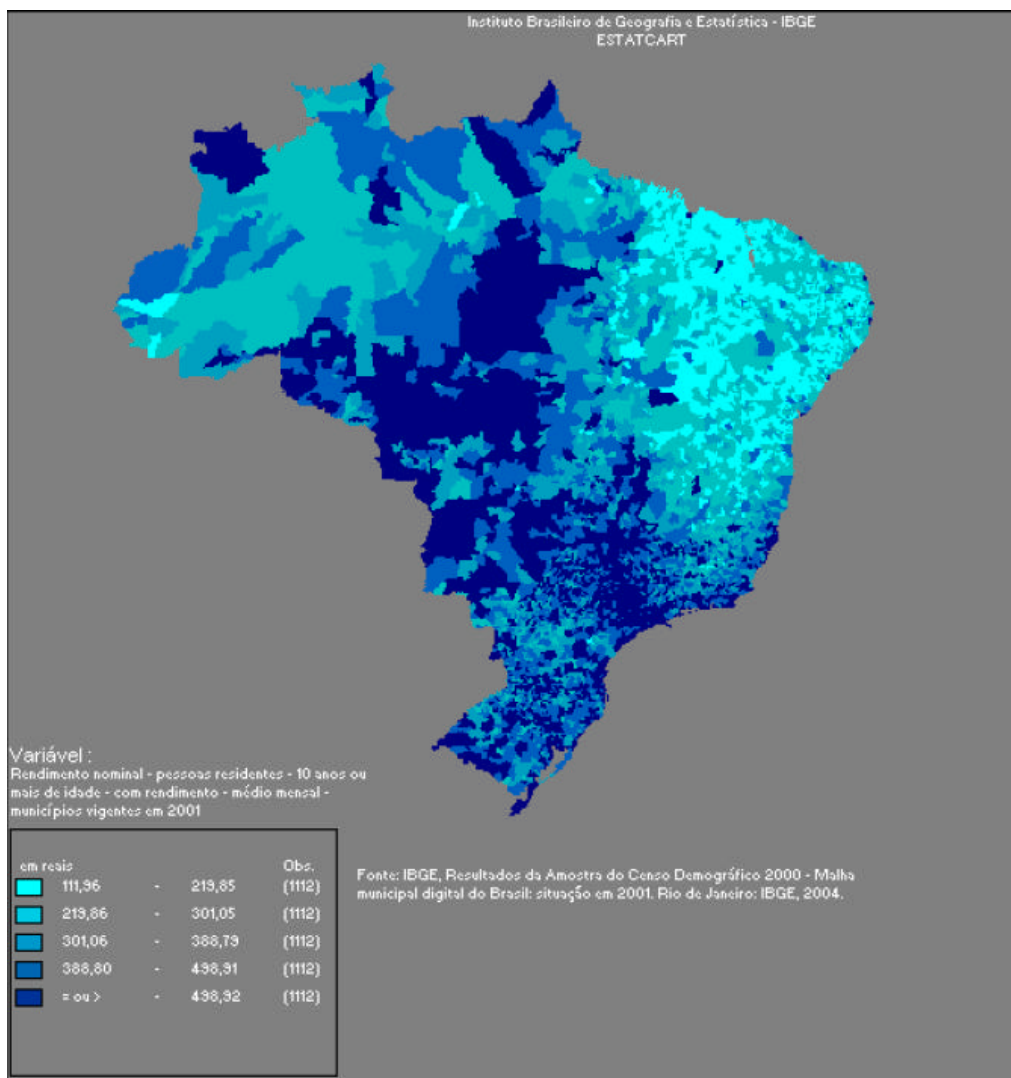
Below is the map of medium income in Brazil (Figure 1). The clearest regions on the map represent the poorest medium income (from the monthly medium

⁹ Ipea, pp. 25-26.

¹⁰ Soubbotina, pp. 28-29.

income of R\$ 111.96, approximately¹¹ US\$ 53) and the darkest regions the richest medium income (from the monthly medium income of R\$ 498.92, approximately US\$ 236). The poorest region in terms of medium income is concentrated in the Northeast of the country. In the centre of the country are some apparently rich regions. It derives from the agriculture frontier that is producing a high general income besides its low distribution of wealth.

Figure 1 – Medium Income in Brazil



Source: Brazilian Institute of Geography and Statistics – IBGE

¹¹ For the exchange rate of 0.474 US\$/R\$, current in 02/27/2007.

In Brazil, according to Brazilian National Household Survey – PNAD 2001 (reviewed), almost 11.2 million families have a monthly family income per capita up to ½ minimum wage (poverty line) and 4.5 million of these families have monthly family income per capita up to ¼ of the minimum wage (indigence line). This survey subsidized the poverty line used for mapping the public aim of the Program *Bolsa Família*.

Leading in consideration a study of poverty line by Rocha and Albuquerque¹², shows that in the whole country 12.9% of the population is extremely poor. In the North and the Northeast the proportion is higher, 24.1% and 18.8% respectively. Nevertheless, in absolute terms, the amount of poor people is bigger in the Southeast region than in the North (5.4 and 2.4 million respectively). The municipalities up to 50 thousand habitants (37% of population) comprehend 54% of extreme poverty and those between 50 and 500 thousand, 28%. Those with more than 500 thousand respond for 18%.¹³ Below there is a more detailed table of the map of extreme poverty in Brazil.

Table 1 – Characteristics of Poverty¹⁴

	Amount of poor (thousand)	Relative Proportion (%)	Proportion of Brazilian Population (%)
Regions			
North	2.415	11,11	18,79
Northeast	11.481	52,82	24,14
Southeast	5.451	25,08	7,57
South	1.533	7,05	6,14
Center-west	855	3,93	7,4
Situation of Domicilies			
Metropolitan	5.420	24,94	9,4
Urban	8.531	39,25	10,51
Rural	7.784	35,81	25,91
Brazil	21.735	100,00	12,87

Source: Brazilian Institute of Geography and Statistics – IBGE, Demographic Census, 2000

¹² Velloso, Albuquerque et al., p. 33.

¹³ Ibid, p. 33.

¹⁴ Ibid, p. 33.

3. The Strategy of Intervention on Poverty

The public sector seeks to incorporate advances of private sector in the area of planning, adopting as one of the principles a strategic orientation with the eyes on long term results, and recent improvements on public planning, as well as in the quality of expending, has originated in the sanitation of public accounts and in the maintenance of macroeconomic equilibrium.¹⁵

The Strategic Orientation of the Government – SOG, which composes the Multi-Year Plan – MYP as its first appendage is the result of the strategic base that comprehend the analysis of the economic and social situation, the objectives stated by the chief of executive power and the prevision of budget resources with its distribution among sectors and programs.¹⁶

The SOG states its 3 mega objectives as follow:

- 1) Social inclusion and reduction of social inequalities
- 2) Environmentally sustainable growth with employment and income generation and reduction of region inequalities
- 3) To promote and expand citizenship and become a stronger democracy¹⁷

The main point in the SOG lays in the long term development strategy, which states “to promote a sustainable development with social equality and that is attribution of State to profit all the instruments and available resources to give the indispensable impulse to the retaking of development. The fundamental problems to be faced are the social and spatial income and wealth concentration, the poverty and the social exclusion.”¹⁸

The SOG also states that social programs are absolutely necessary but insufficient to eradicate poverty, because attacking to social exclusion and bad wealth distribution also needs a sustainable growth. To implant the project of development

¹⁵ Albuquerque et al., 2006.

¹⁶ Ibid.

¹⁷ Law 10.933 of 2004, PPA 2004-2007.

¹⁸ Ibid.

the State needs play a role of conductor of social development and inductor of economic growth.

The SOG also recognizes the activity of planning as the coordination and the articulation of the public and private interests to decrease the poverty of population, social and regional inequality, redistribute income, among others.

The Multi-Year Plan (PPA 2004-2007) has the objective of inaugurate another strategy of long term: social inclusion and income deconcentration with vigorous growth of product and employment. In the long term the purpose is growth by the expansion of the mass consumption market and with the progressive incorporation of workers' families to the consuming market of modern enterprises. The SOG says the model is viable, since it is inscribed in the logic of Brazilian economy. Every time that the purchasing power of the workers' families increase, also increases the demand for goods and services produced by the modern structure of the economy like processed food, clothing and footwear, hygienic and cleanness articles etc.

The economic logic of growth via mass consumption is sustainable by three points as follow:

- 1) Big gains of productivity (associated with the bulk of domestic market)
- 2) To the gains of efficiency by scales derived from the conquest of external markets resulting from benefits of the domestic scale (exports)
- 3) To the gains derived from the learning and innovation process that accompanies the investments in expansion of the goods production of mass consumption by modern sectors

The strategy, according to the SOG, is based on the use to advantage the potential consumption market, which Brazil has one of the biggest in the world. The challenge is to transfer the surplus of gains of productivity into income to the workers' families through the reduction in the prices of goods and services of mass consumption, increasing salaries and the fiscal depositaries that can be destined to social expenses.

Obviously, great part of the strategy is based on the relative quantity of the surplus of gains of productivity is canalized to the families. For that, it recognizes

that the transmission of productivity to families will be difficult to happen without policies of employment, social inclusion and income distribution. The modern sectors of economy are little intensive in labor and insufficient to absorb the huge amount of unemployed people, even if the economy grows faster.

To increase the transmission of productivity to the salaries and to reduce the pressure of the labor supply over the job market, which keeps the salaries in a lower level and happens mainly among the poor and less skilled people, complementary social policies are necessary. These policies are the agrarian reform to keep labor force in the fields, the micro-credit that gives support to self employment and generates income, recover scholar frequency as a condition for income transference policies to reduce the child labor and to universalize the assistance to the elder people to discharge vacancies in the job market. It also operates in favor of the mass consumption model the programs of income transference, the elevation of the minimum wage and the unemployment insurance, which increases the income of the poor people.

To do so, the SOG clearly exposes the intention to unify the income distribution programs. The necessity to abandon the sectorial logic that pulverizes resources and become the administration of the programs inefficient was one of the first measures to attack poverty and to give dynamism to the local economies. The expectation is that the economic growth and the programs of income transference to the poor gradually increases that part of the income appropriated for the poorest 70% of the population.

4. Merging the Programs of Income Transference

In 1988, the new Brazilian Constitution puts the social assistance at the level of public policy, the logic was changed from the contributive, which do not attend to those excluded from the system, to the non-contributive one. Therefore, it asserts protection to the family, mothers, infants, adolescents, the elderly and to disabled, guaranteeing a minimum wage for those who prove do not have means to provide their own maintenance.

In 1990, through the Law 8,069/90, is established the Child and Adolescent Statute – CAS, which gives to children (up to 12 years) and adolescents (from 12 to 18 years) primacy to receive protection and help in any circumstances. It also gives them precedence of attendance in public services or public relevance, preference in formulation and execution of social public policy, privilege destination of public resources in the areas related to protection to the infancy and youth, among others.

One of the most important instruments of income transference comes out in 1993, through the edition of the Social Assistance Organic Law – SAOL. It defines social assistance as a social welfare policy without contribution that provides the social minimum and guarantees one minimum wage of monthly benefit to the disabled and to the elderly people (65 years of age or more)¹⁹ that prove do not have self means to provide their own maintenance (family with less than ¼ of minimum wage per capita) or to be provided by their family. The SAOL established the objectives of protection to family, to mothers, to infants, to adolescents and to the elderly. It is established as main principles the supremacy of attendance to social necessities over the exigency of economic profitability and the universalization of social rights.

According to the SOG, the SAOL has designed an institutional model in which is previewed the decentralization, the unique command, the participated management with civil society and the social control. This benefit has as presumption the fact that the market is unable to absorb those citizens that do not have conditions to compete in the job market and do not contribute to the social welfare. The benefits distributed according the SAOL are named Continued Cash Benefit Program – BPC. For methodological purposes it will be considered as BPC the Lifelong Monthly Income – RMV, created in 1974 and merged with BPC in 1993.

In the following table is the evolution of the spending in the BPC program since 2001. In 2005 there is a soft increase in the inclination of the budget for the elderly, resulting from the reduction of age to request for the benefits, from 67 years of age to 65 in 2003, implemented by The Elderly Statute (Law 10.741/2003).

¹⁹ Age actualized by the Law 10.741/2003 (The elderly statute).

Table 2 – Evolution of the Budget of the BPC

Program	R\$ thousand					
	2001	2002	2003	2004	2005	2006
BPC - The elderly	1,516,302	1,895,231	2,439,288	3,032,536	4,067,472	5,144,721
BPC - Disable People	2,769,758	3,355,856	4,035,221	4,542,710	5,267,709	6,425,973
Total	4,286,060	5,251,087	6,474,509	7,575,246	9,335,181	11,570,694
Growth Rate (%) *		23%	23%	17%	23%	24%

* Relative to the earlier year

Source: Ministry of Social Development and Fight against Hunger – MDS

Since the late 90's and especially from 2003, conditional cash transfers programs became the mainstream of the social policy in Brazil through the implementation of several programs like Program *Bolsa Família* – PBF²⁰. The PBF is based on 5 programs that were born to solve problems like hunger and child labor in Brazil.

To make an overview of the evolution process of the conditioned cash transfer programs in Brazil, it is important to mention those that merged into the PBF. The first program to be mentioned is *Bolsa Escola* (School Grant) that was created in the Federal District of Brasilia in 1995, as well as in Campinas and São Paulo, and nationally adopted in 2001. By September 2006 the program has spent approximately US\$ 1.71 billion (R\$ 3.57 billion)²¹. With the creation of the PBF in 2004, *Bolsa Escola*, *Bolsa Alimentação* (Food Grant), *Cartão Alimentação* (Food Card) and *Auxílio Gás* (Gas Aid) were merged into that program and accounted, in 2003, nearly 41% of total spending on the safety net programs under Program *Bolsa Família*.

The Program *Bolsa Escola* gave a monthly grant of US\$ 7.20 (R\$ 15) to each child from 6 to 15 years, who go to school with an attendance rate of minimum 85%. However, the program covers the maximum of 3 children per family with family income per capita up to US\$ 43.20 (R\$ 90). The program was administrated originally by the Ministry of Education.

The Program *Bolsa Alimentação* was created in 2001 to provide basic nutrition to children between the critical ages of 6 months to 6 years and 11 months of

²⁰ Hall, p. 1.

²¹ Based in the exchange rate of 03/16/2007 of US\$ 0.48/R\$.

age, pregnant women and wet-nurses. Each family can receive up to 3 benefits of US\$ 7.20 (R\$ 15) per person. The program was administrated by the Ministry of Health.

The *Cartão Alimentação* is a program of income transference, created in 2003, to aid people in situations of alimential insecurity (monthly family income per capita lower than ½ minimum wage).

The *Auxílio Gás* was created in 2002 with a focus in low income families affected by the end of the subsidy of the kitchen gas. The benefit of US\$ 7.20 (R\$ 15) per family is paid each 2 months. Is one of the programs merged into *Bolsa Família* and was administrated by the Ministry of Mines and Energy.

Finally, the Program of Child Labor Eradication – PETI was created in 1996 and its objective is to eradicate all kinds of child labor within the country. Its integration with *Bolsa Família* started at the end of 2005 and still is being processed. To receive the income transference, the families have to compromise by removing all children and adolescents (7 to 15 years old) from labor and exploiting activities. They must also keep them attending a regular school not less than 85% of the time. Additionally, the children must participate in socioeducational activities (*Jornada Ampliada*) to reduce the probability of children being reinserted into labor activities. Families residing in urban areas receive US\$ 19.20 (R\$ 40) per child and in rural areas US\$ 12.00 (R\$ 25) per child. Besides that, the PETI transfers to the State or Municipal Social Assistance Fund US\$ 9.60 (R\$ 20) to those who live in urban areas or US\$ 4.80 per child (R\$ 10) to those who live in rural areas attending the *Jornada Ampliada*.

In 2004 the Program *Bolsa Família* – PBF was created and then absorbed the programs *Bolsa Escola*, *Bolsa Alimentação*, *Cartão Alimentação*, *Auxílio Gás* and the Program of Child Labor Eradication – PETI to give more rationality and organization to the programs of income transference. This can improve the efficiency of the procedures of management and execution of these programs, since they were administrated by different ministries. This is regardless of the fact they could have the same potential beneficiaries. The PBF gives US\$ 24.00 (R\$ 50) to the families with income per capita up to US\$ 28.80 (R\$ 60) plus US\$ 7.20 (R\$ 15) per person as a variable parcel, until the limit of 3 people or US\$ 21.60 (R\$ 45) for each child, adolescent, pregnant woman and wet-nurse in the family. However, the transference is conditioned to the insertion and maintenance of the children from the ages of 6 to 15 years in schools and of the pregnant woman, wet-nurse and child up to 7 years old in

the health net. It is important to mention that the average benefit increases by 21.4% than the medium income of average family.²²

The program is structured in three basic dimensions necessary to overcome poverty as follow:

- 1) The immediate alleviation of poverty through the income transference to the families
- 2) A strategy to break the intergenerational poverty, through obligating the beneficiated families by the transference to accomplish with certain conditionalities in the areas of health and education
- 3) The coordination of complementary programs like the generation of work and income, adults alphabetization and the official registration of families by the emission of civil documents

The municipalities are responsible for operating the program. If the family fits in the income eligible for the program, they have to look for the responsible sector for the program in the municipality in order to be listed in the unique listing for social programs of the federal government – *CadÚnico*. The municipalities are also responsible for monitoring the adherence of the conditionalities and to establish a social council – *Conselho de Controle Social* to guarantee the participation of social society in the processes of planning, monitoring and evaluation of the program as well as sharing responsibilities with them.²³

The *CadÚnico* is the official instrument to collect the data to identify the families in situation of poverty over the country. Being listed does not mean the family will be in the program. From the information inside the *CadÚnico* the Ministry of Social Development selects electronically the families that will enter the program each month. However, the central criterion of selection is the *per capita* income of the families, prioritizing those with less income.²⁴

The conditionalities of the program are related to the areas of health and education. Basically, to have the right to receive the benefits the families have to keep the children and adolescents at the scholar ages attending school at up to 85% frequency. They must also accomplish the basic cares on health, like attending the

²² MP, p. 63.

²³ PBF's official site.

²⁴ Ibid.

vaccination calendar to child from 0 to 6 years, and attending the pre and pos-natal agenda to the pregnant women and wet-nurse mothers.

The logic of the PBF relies on the technical rationale that by focusing on children, the inter-generational transmission of poverty can be broken by the long-term capital accumulation and stimulating effective demand for social services, like schools and medical clinics. It is important to say that this logic is different from that of classic social assistance that uses short-term mechanisms to deal with poverty during the times of crisis.

According to Hall (2006), “providing cash (rather than benefits in kind, food stamps or vouchers) is more cost-effective and flexible, and avoids the creation of distorting secondary markets. Furthermore, the focus on health, education and nutrition fosters those synergies amongst diverse components of human capital considered essential for breaking the vicious circle of intergenerational poverty. Several countries adopting conditioned cash transfers have also carried out evaluations that have provided empirical evidence of their effectiveness, facilitating scaling-up and political-administrative continuity.”²⁵

Below we can see in table 3, through the evolution of budget, how old programs were merged into *Bolsa Família*. Table 4 shows how the process of including people in the recent years was.

Table 3 – Merging process into *Bolsa Família*

	R\$ thousand					
Program	2001	2002	2003	2004	2005	2006
<i>Auxílio Gás</i>			800,205			
<i>Bolsa Alimentação</i>	434	152,000	360,000			
<i>Bolsa Escola</i>	501,325	1,537,096	1,564,262			
<i>Cartão Alimentação</i>			632,624			
Program of Child Labor Eradication – PETI	286,218	465,497	456,245	495,333	533,259	244,618
<i>Bolsa Família</i> *				5,314,417	6,386,260	8,231,022
TOTAL	787,977	2,154,593	3,813,336	5,809,750	6,919,519	8,475,640
Growth Rate (%)**		173%	77%	52%	19%	22%

* Including spending on Ministry of Health in 2004 and 2005

** Relative to the earlier year

Source: Ministry of Social Development and Fight against Hunger – MDS

²⁵ Hall, p. 692.

Table 4 – Evolution of the target of *Bolsa Família*

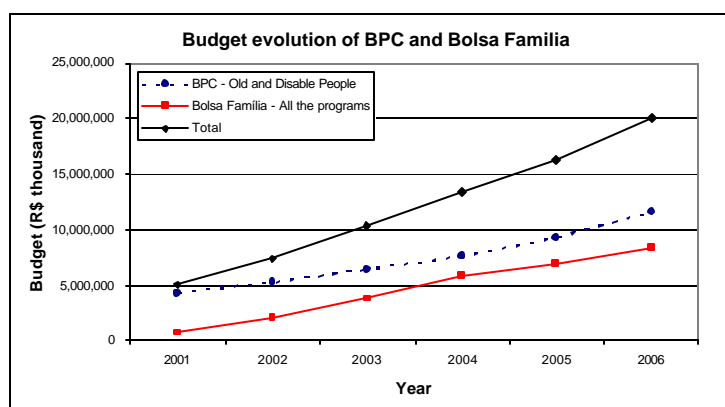
	2003	2004	2005	2006
Number of Families enrolled in the PBF (million)	3.6	6.5	8.7	11.1
% of the original target fulfilled (11.1 million families)	32%	59%	78%	100%

Source: Ministry of Social Development and Fight against Hunger – MDS

In December of 2005, PBF was working in all municipalities of the country and 49% of the resources of the program were going to the Northeast region, followed by Southeast (27%), South (11%), North (8%) and finally Center-west (5%). In 2005, the conditionalities of education were being satisfied by at least 75.6% of total children enrolled in the program²⁶. However, the conditionalities of health were being satisfied for only 31.3% families to be monitored by the Ministry of Health²⁷.

The program has been implemented in all the municipalities of the country and benefits 11.1 million families totalizing almost 44 million people. The program is the largest conditional cash transfer program of the world. However, in order to make a comparison the graph 1 shows that in terms of resources, the PBF is not as large of a program of income transference as the BPC is.

Graph 1 – Evolution of the budgets of *Bolsa Família* and BPC



Source: Ministry of Social Development and Fight against Hunger – MDS.

²⁶ MP, p. 61.

²⁷ MP, p. 62.

The concentration of the programs into PBF has helped to decrease administrative costs. The investment of the program in direct income transference to the families is U\$ 3.67 (R\$ 7.64) billion, which represents 92.8% of total resources of the program. The administrative costs are U\$ 284.6 (R\$ 593.0) million which represents 7.2% of total resources of the program. For the purpose of this paper, I am considering as administrative costs those used for contracting the operator agent of the program, in the case the federal bank “*Caixa Econômica Federal*”, the attendance of the conditionalities fulfillment, the support for decentralized execution of the program (municipalities) and the maintenance of the unique listing for social programs of the federal government – *CadÚnico*. In the following table, we can see the execution of the program budget in terms of finalists and administrative resources.

Table 5 – Execution of the Budget of the Program *Bolsa Família*

	R\$ million		
	Budget 2006	Executed 2006	% Executed / Budget
Resources used in Direct Transference	8,303.9	7,638.1	92.0%
Administrative Costs	607.8	593.0	97.6%
Total <i>Bolsa Família</i>	8,911.7	8,231.0	92.4%

Source: Author's calculation based on the budget of the program.

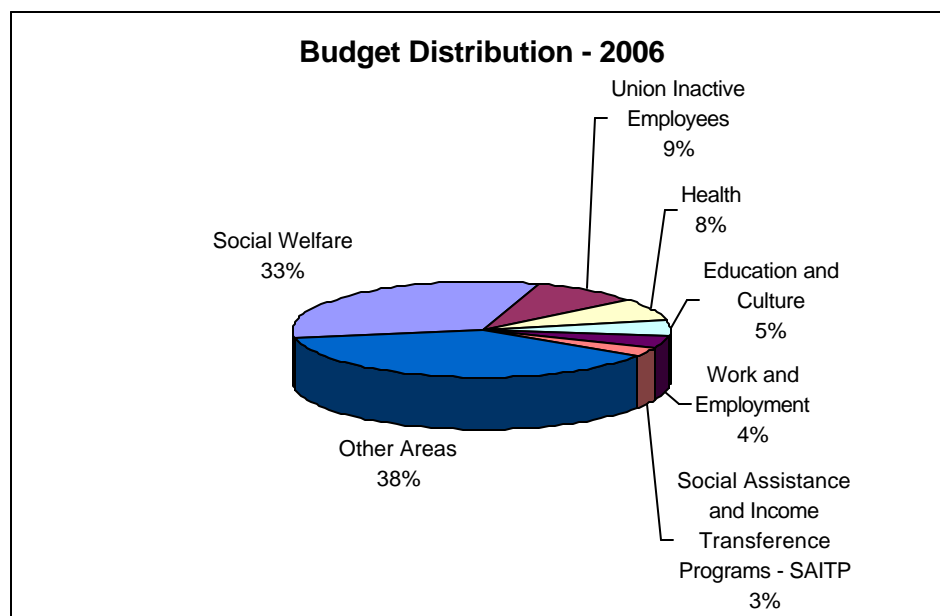
5. Resources Involved - The Social Budget

The main issue in this chapter is to draw a general perspective of the bulk of the budget resources of social assistance and income transference programs.

When we talk about spending, it is interesting to know that in 2001 and 2002, more than 2/3 of the liquid revenue of central government was used to finance expending on social areas. These areas, most part are related to retirement and pension, with a strong regressive component in the Brazilian case. Besides that, the social spending that has the major power to fight against poverty maintains a small

participation on the central government's budget²⁸. In the graph 2, we can see the distribution of resources of the budget approved by the National Congress for the fiscal year of 2006.

Graph 2 – Budget shares by functions



Source: Secretary of Federal Budget – Ministry of Planning, Budget and Management.

For a real base analysis of the budget, it is necessary to consider only the primary sources of revenue. To reach that, it is necessary to exclude the resources related to the administration of debt, since a huge amount of them comes from secondary sources, like sales of public bonds and the remuneration applied upon the available funds of treasury unique account. The rest of the resources to fulfill the nominal deficit, resulting from the payment of interest rates, are provided basically by the emission of new bonds. To eliminate this situation of increasing debt in nominal terms is necessary, at least, to pay all the interests generated by the debt in a year, eliminating the nominal deficit.

²⁸ Secretaria de Política Econômica, p. 3.

However, focusing on the concept of primary sources of revenue, the social budget is constituted by the programs of social welfare – which correspond to the payments of the welfare benefits –, Union Inactive Employees, Health, Education and Culture, Work and Employment and finally the Social Assistance and Income Transference Programs – SAITP, which correspond to the programs of Continued Social Benefits – CSP and the *Bolsa Família*.

As seen in table 6, the Social Budget represents approximately 63% of the total budget in a historical approach and reached the highest point in 2004 – 65.1%, when the program *Bolsa Família* was created. It, however, decreased to the historic level of 63% in the following years, as seen in graph 3. It is important to observe that 52% of the social budget belongs to social welfare, which is hardly impacted by the level of the minimum wage. The programs of social assistance and income transference programs – SAITP has increased its share of budget in the recent years, starting from 2.2% of the social budget in 2001 (1.4% of total budget) to 5.4% of the social budget in 2006 (3.4% of total). It is important to mention that 32.1% (2005) of the SAITP is represented by *Bolsa Família*, which is not affected by the policies of the minimum wage.

However, according to Hall (2006), “Brazil’s social sector investment, while comparing reasonably well with the OECD average of 25 per cent of GDP, is undermined by its high spending on pensions (Social Welfare)²⁹. Whereas pensions in OECD countries account on average for 33 per cent of spending, this figure rises to 44 per cent in the case of Brazil, surpassed only by Italy and Mexico.”

In table 6 as well as in graph 3, it is possible to see the evolution of social share of the budget through the last 6 years. Pensions are included in the Social Welfare category of the budget.

²⁹ Added by the author.

Table 6 – Overview of Social Budget

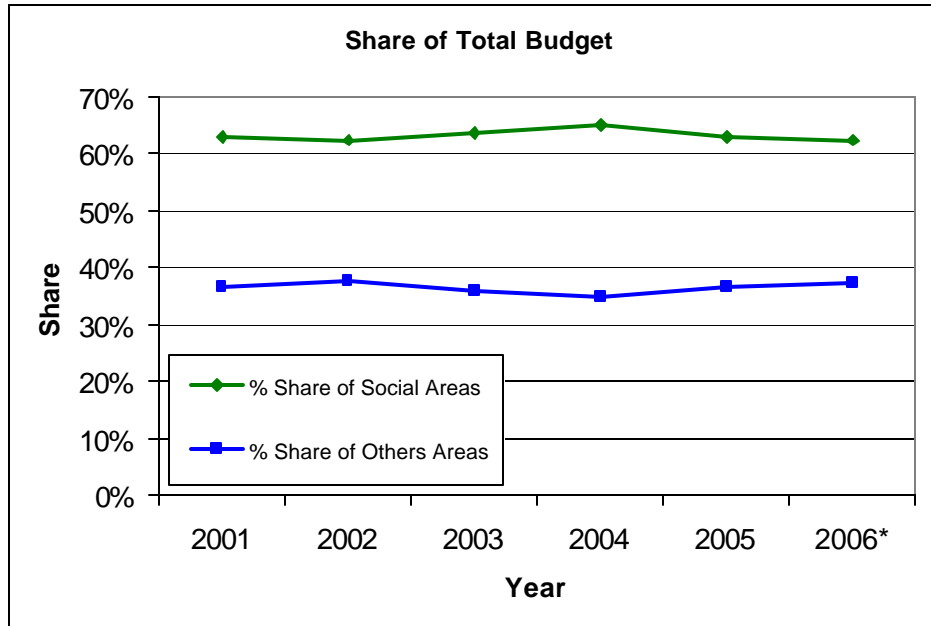
Programs Description		2001	2002	2003	2004	2005	2006*
Social	Social Welfare	79.8	91.5	112.8	130.8	151.6	165.6
	Union Inactive Employees	30.6	34.7	36.3	40.1	43.6	44.5
	Health	23.4	25.1	26.8	32.6	36.1	39.4
	Education and Culture	20.7	23.3	25.1	26.4	31.6	27.4
	Work and Employment	10.0	12.6	14.8	16.9	19.5	20.6
	<i>Social Assistance and Income Transference Programs - SAITP</i>	3.7	4.8	6.4	12.0	14.0	17.1
Total Social Area		169.1	192.2	222.3	258.9	296.4	314.6
Total Others Areas		98.5	115.8	125.8	139.0	171.6	188.8
Total Budget**		267.6	307.9	348.1	397.8	467.9	503.4
% Share of Social Areas		63.2%	62.4%	63.9%	65.1%	63.3%	62.5%
% Share of Other Areas		36.8%	37.6%	36.1%	34.9%	36.7%	37.5%
SAITP as a percentage of Social Budget		2.2%	2.5%	2.9%	4.6%	4.7%	5.4%
SAITP as a percentage of Total Budget		1.4%	1.6%	1.8%	3.0%	3.0%	3.4%

* 2001-2005 - Realized / 2006 – Annual Budget Law

** Debt excluded

Source: Secretary of Federal Budget – MP

Graph 3 – Share of the budget between the social and the other areas



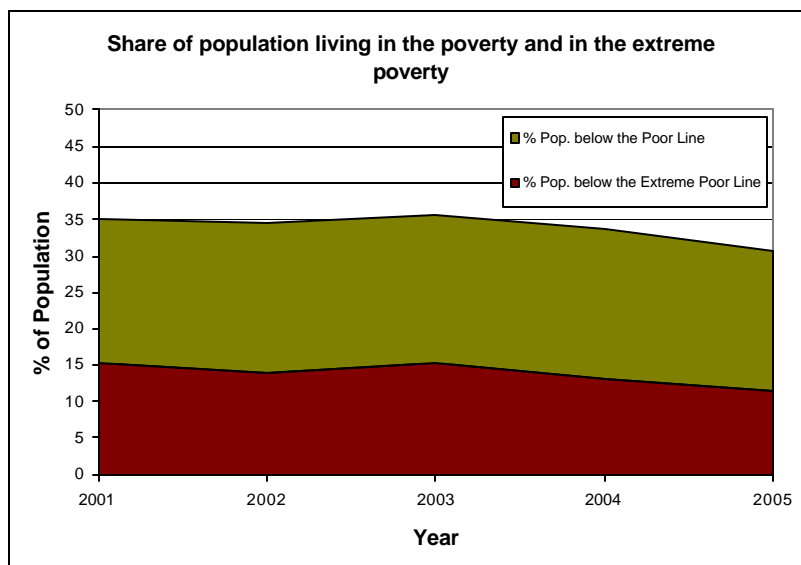
Source: Secretary of Federal Budget – MP

6. Evaluation of Results

In the year of 2004 the level of extreme poverty fell by 19.6% and the poverty fell by 10.2% relative to the year of 2003.³⁰ The level of extreme poverty fell from 23.9 million people in 2001 to 19.8 million in 2004. The poverty fell from 55.6 million people to 52.5 million in 2004.³¹ Further, the piece of income that came to the poorest 50% in 2001, 12.7% of total household income, rose to 14.0% in 2004. The portion that comes to the richest 10% fell from 47.2% to 45.0% and to the richest 1% fell from 13.8% to 12.8%, respectively.³² The main reasons for these positive changes in the poverty is the growth of economy, the raise of the minimum wage above the level of inflation and the transferences associated to *Bolsa Familia*.³³

It is possible to see the reduction on both poverty and extreme poverty in graph 4.

Graph 4 – Share of population living in the poverty and extreme poverty



Source: Instituto de Pesquisa Econômica Aplicada – IPEA

³⁰ Ipea, p. 29.

³¹ Ibid., p. 35.

³² Ibid., p. 28.

³³ Ibid., p. 25-26.

In general, there are two ways to reduce poverty, one is through growth and another is through the reduction of inequality. To reduce inequality it is necessary to have an irregularity between the growth of income of the rich and the poor people during the time. It happened in Brazil in recent times. Between 2001 and 2005, the degree of income inequality declined sharply and continuously, reaching in 2005 the lowest level in the last 30 years.³⁴ The Gini Index declined by 4.6% (from 0.593 to 0.566)³⁵. To reach this rate of declination of it would be necessary a growth of 11%, since 1% in the reduction of inequality rate is equivalent to 2.4% in the increase of growth.³⁶

In actuality, between the years of 2001 and 2005, the national income per capita increased by 8% to the 10% poorest and by 5.9% to the 20% poorest, besides the fact that national income increased only 0.9%. The ratio between the richest 20% and the poorest 20% declined 21%.³⁷ Indeed, the high increase in the income of the poorest comes 85% from the reduction of inequality and only 15% from the growth.³⁸

In recent years (2001-2004), it is possible to assure that the growth rate of per capita real income of the poor (3.07%) increased more than the average income (-1.35%), generating a pro-poor net growth rate of 4.42%, which represents a decline of inequality. This is an extremely good result and this pattern of growth has led to an unprecedented reduction of inequality, since the rate of pro-poor net growth for the period of 1995-2001 is just 0.40%, and for the whole period of 1995-2004 is 1.36%.³⁹

However, this change in per capita real income comes more from non-labor income, as social security benefits and cash transfers from social programs like *Bolsa Família*. Non-labor income also includes interest rates paid in government debt. However, the PNAD largely underestimates the interest income, hence the non-labor income concept is largely explained by public cash transfer⁴⁰. Graph 5 shows the

³⁴ Barros et al. (TD 1258), p.13.

³⁵ Ibid., p. 7.

³⁶ Barros et al. (TD 1256), pp. 18.

³⁷ Barros et al. (TD 1258), p. 13.

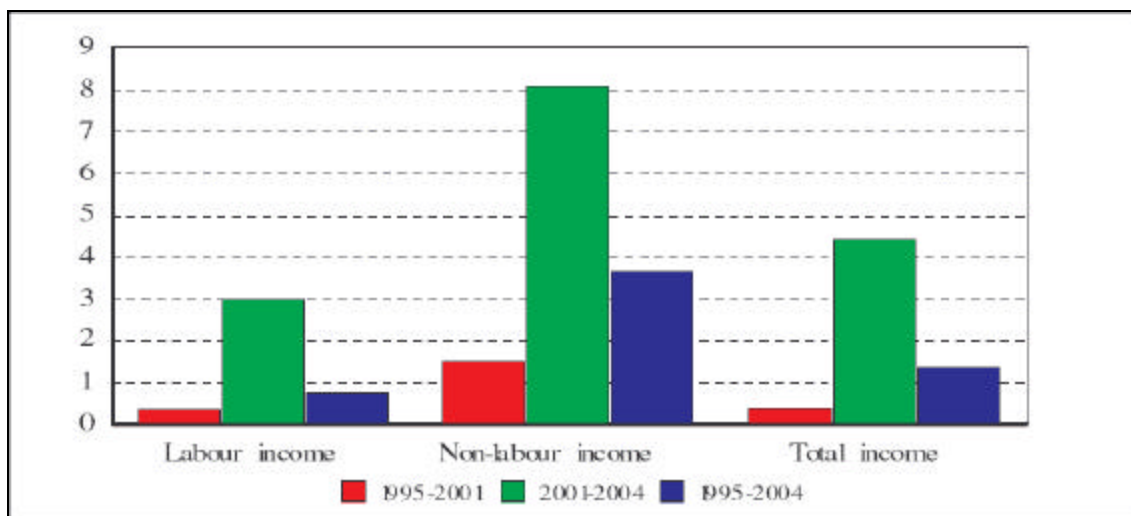
³⁸ Barros et al. (TD 1256), pp. 8-9.

³⁹ Author's calculation based on data from Kakwani, Néri and Son, p.11.

⁴⁰ Kakwani, Néri and Son (2006).

composition of labor and non-labor income in the total income growth rate. The vertical axis represents the income growth rate:

Graph 5 – Composition between labor and Non-labor income in the total income



Source: Kakwani, Néri and Son, 2006.

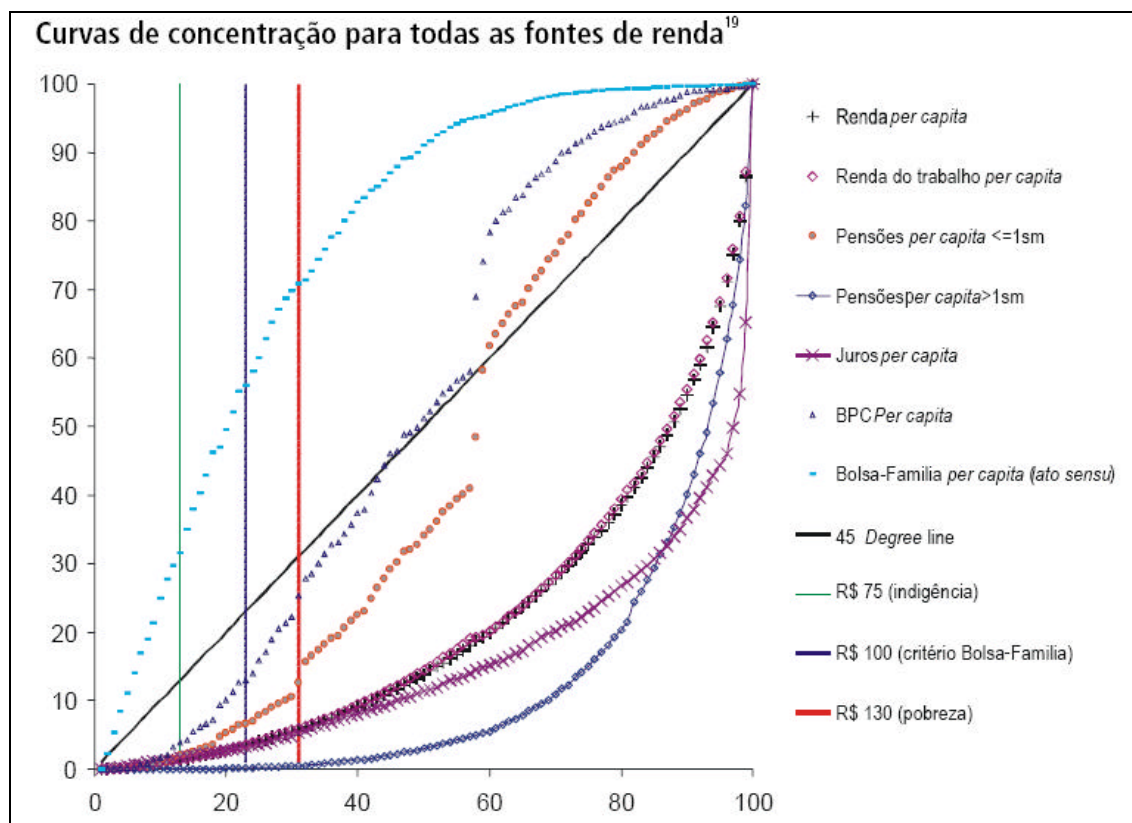
According to Soares, 2006, "74% of BPC reported income and 80% of *Bolsa Família* reported income goes to families living below the poverty line (half of minimum wage per capita), and that they were jointly responsible for 28% of the fall in the Gini Index between 1995 and 2004 (7% from BPC and 21% from *Bolsa Família*). This contribution is quite sizable since BPC and *Bolsa Família* together account for a tiny 0.82% of the total family income reported in the National Household Survey – PNAD 2004."⁴¹

Once BPC gives a benefit of one minimum wage U\$ 168 (R\$ 350) and the *Bolsa Família* the maximum of U\$ 45.60 (R\$ 95), technically only the BPC has the power to take off people from the poverty line ($\frac{1}{2}$ of minimum wage) while *Bolsa Família* can only take off people from the extreme poverty line ($\frac{1}{4}$ of minimum wage). Thus, the BPC has impacted both the incidence and the intensity of poverty, while *Bolsa Família* only has effects on the intensity of poverty.

⁴¹ Soares, p. 11.

In graph 6 we can see the general effect of both programs in the income distribution of the country. Both programs, Bolsa Família and the BPC have the capability of decrease the Gini Index, since they are well focused in poor people. The graph also shows that Bolsa Família is better focalized in the extreme poorest than the BPC is.

Graph 6 – The individual Gini Index of the governmental transferences



Source: Soares, 2006, from PNAD 2004 (IBGE).

With the relation to the eradication of child labor, according to PNAD 2002, there were 3.0 million children in situation of labor in the quoted year, which represented 8.2% of total children within this range of age. In 1999, this percentage was 10.7%. It is not possible to say that child labor itself is harmful to children for their future. In determinate cases it helps children to discipline to prepare themselves for the labor market, but in other cases child labor can impose substantial harm to the

physics and mental healthiness of children. In some cases, working even helps children to attend school.⁴²

Cardoso and Souza (2004) offer a profound evaluation of how conditioned cash transfers programs have impacted child labor and school attendance in Brazil during the period of 1992 and 2001. Child labor declined by 30% in children from the ages between 10 and 17⁴³ and school attendance increased from 78% (average between boys and girls) to 90%.⁴⁴ Several factors contributed to this result, like the tendency that child labor has to decline with economic prosperity. However, the incidence of conditioned cash transfer has a significant impact on increasing school attendance and definitively impacts positively the allocation of time between school and work in a positive way. It also reduces the incidence of only work or no work children and increases the incidence of only school children and school and work children. In table 7, we can see the impact of the programs on school attendance. For that, since Cardoso and Souza works with separated data between boys and girls, I will assume a hypothetic weight of 50% for boys and 50% for girls in the Brazilian population distribution.

Table 7 – Impact of the programs on school attendance

	With CCT	Without CCT	Diference
Only School	85.5%	82.2%	3.3%
Only Work	1.3%	2.1%	-0.8%
School and Work	9.7%	9.0%	0.7%
No School and no work	3.5%	6.7%	-3.2%
Total	100%	100%	

Source: Compilation of the author based on data from Cardoso and Souza, 2004.

Basically, it is possible to conclude that conditioned cash transferences have a great impact to increase school attendance by bringing to the school those who do not are in that neither working, but is not sufficient to keep those who already works out of working since they choose to combine go to school and keep working. In the words of Cardoso and Souza, 2004, *"a possible explanation for this finding is that*

⁴² Cardoso and Souza, p. 3.

⁴³ Cardoso and Souza, p. 3.

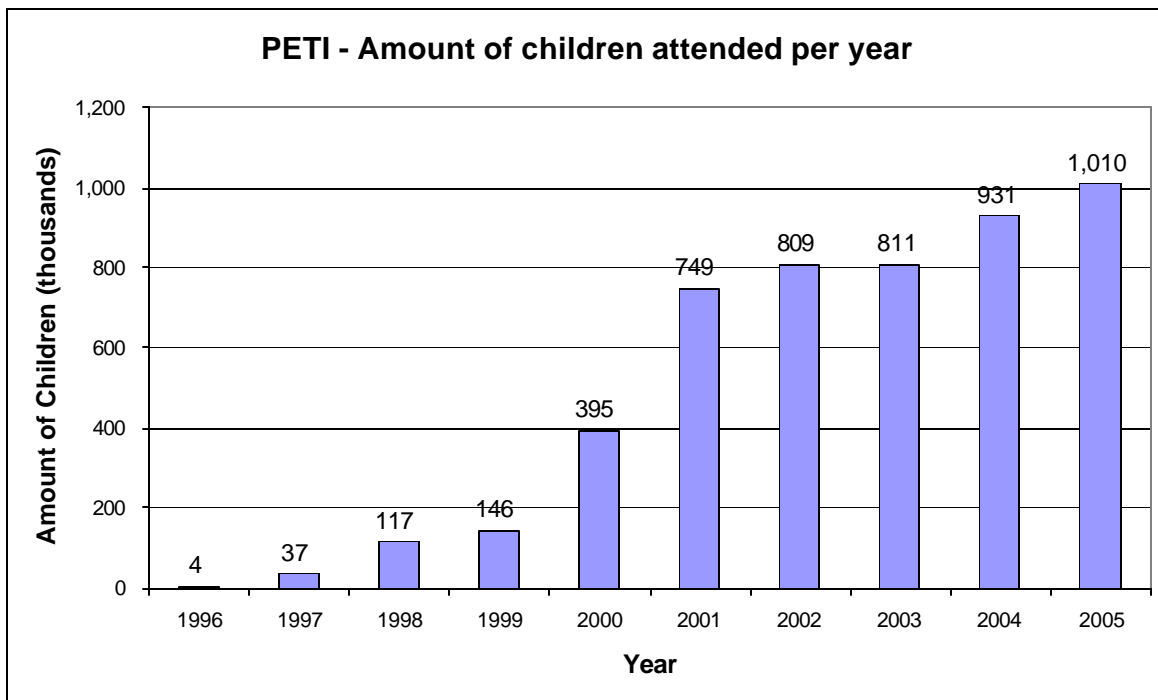
⁴⁴ Calculation of the author considering data from Cardoso and Souza.

the cash transfers are too small to create the incentive for families to forgo the income from child labor.”⁴⁵

The importance of the transferences appears as soon as we see that children from the 5th quintile of the income scale have 42% greater possibility of dropping out of school than the 1st quintile have when their parents experiences a crisis in the income of the family.⁴⁶

Below we can see the program evolution of children attended per year since 1996.

Graph 7 – Amount of children attended per year



Sources: Ministry of Social Development and Fight against Hunger, Unicef and Ministry of Planning, Budget and Management.

With the relation to the impact on school attendance rates, 89.8% of the schools accomplish the attendance rate of children that belongs to the programs of

⁴⁵ Cardoso and Souza, p. 22.

⁴⁶ Cardoso and Souza, p. 5.

conditioned cash transfers. Among the children enrolled in the PBF, 95.2% have an attendance rate equal or more than 85% of the time. Those who have less than the minimum attendance rate, 27.6% are related to neglecting of the parents or responsible.⁴⁷

About the school drop-out rates, the World Bank⁴⁸ reveals that drop out rates among beneficiaries of PETI are much lower (0.4% in 1996) than among non-beneficiaries (5.6%). Second, a larger proportion of the children in beneficiary households enter the school system at the right age than do their non-beneficiary counterparts. Third, children in beneficiary households do exhibit a higher promotion rate (80%) than their counterparts in non-beneficiary households (72%).

7. Some Notes on the Role of Growth with Poverty Reduction

One of the classical functions of the State is to redistribute income, which depends on labor productivity and on other market production factors. If the market works freely, we will have a distribution which will depend of each person's productivity, but it will be influenced by the initial patrimonial resources. Government works like an agent who distributes income, through progressive structure taxation and poor regions subsidizing.

However, this taxation mechanism of income distribution in Brazil does not work well since rich people receive more transferences than the poor. Basically, people from upper income classes get back as transferences the amount they pay as taxes. Therefore, programs like *Bolsa Família* and BPC have the ability to transfer income from upper income classes of society to lower classes, smoothing the effects of the mechanisms of income concentration working in Brazil, like the regressive tax system and the social welfare system.

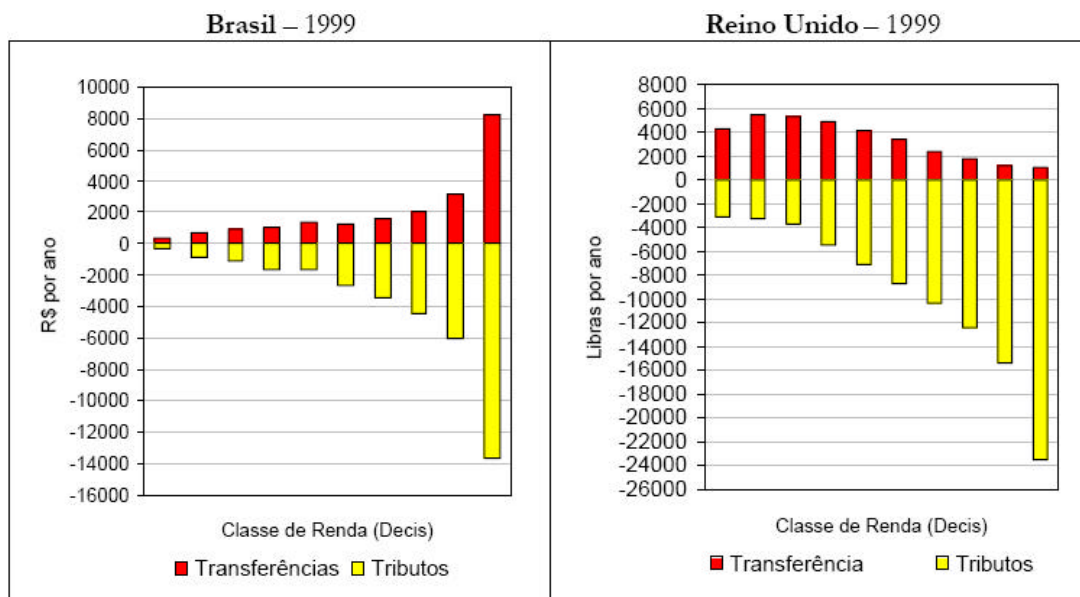
The graph 8 shows a comparison between the structures of income distribution of Brazil and the United Kingdom in 1999. It is possible to see that a real

⁴⁷ MDS, mimeo, p. 267.

⁴⁸ World Bank, p. 16.

transference of income from the richest to the poorest actually exists in the United Kingdom. This does not happen in Brazil.

Graph 8 – Structures of income distribution of Brazil and the United Kingdom in 1999



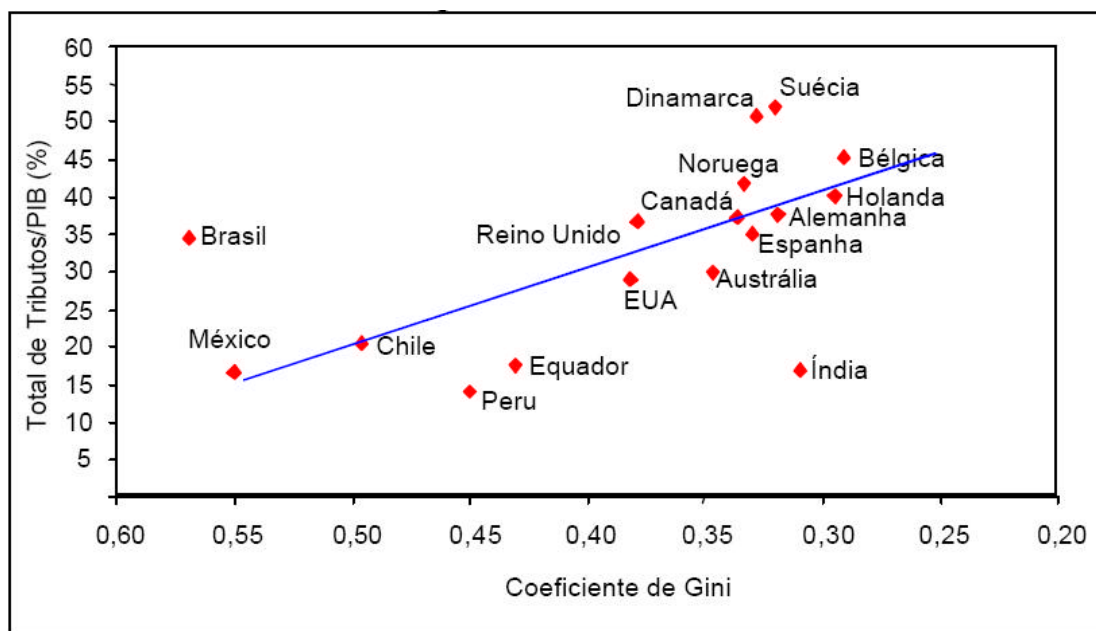
Fonte: Brasil – Immervoll, Levy, Nogueira, O’Donoghue e Siqueira, 2003; Reino Unido - Lakin, 2001.

Source: Secretaria de Política Econômica, p. 16.

An urgent change in the structure of taxation in order to construct a progressive system and a democratization of transferences, of which the most relevant component is social welfare, are the most important ways to improve the income distribution within the country.

The graph 9 shows a relation between the tax burden and the Gini Index of selected countries. In general, the higher the tax burden the lower the Gini Index within the country. In this case, Brazil is an exception to the international tendency, demonstrating that the country does not use the tax system to affect the extremely unequal income distribution within the country:

Graph 9 – Relation between the tax burden and the Gini Index of selected countries



Fonte: OCDE e FMI. Siqueira, Nogueira e Levy, 2003.¹²

Source: Secretaria de Política Econômica, p. 12.

In addition, since the growth of economy is the most powerful instrument to combat poverty, knowing the nature of the distribution of the growth is very important, too. In other words, how much of growth is pro-poor and how much is not would be very important to analyze. However, in the last analysis, the answer of this question will lay on a trade-off between the growth in the short and the long run. Besides that, we have already known that, in the most part of Latin America countries, “with the exception of Chile, there has been little poverty reduction beyond the gains of the 1950–80 period, and in many countries growth has not been especially pro-poor”⁴⁹.

⁴⁹ Perry, p.1.

8. Conclusion

Poverty in Brazil certainly is an ongoing problem. The country experienced many years of strong growth of the economy during the “Brazilian Miracle” of the 70’s. The poverty certainly decreased in those times, but starts to grow again with the “Debt Crisis” of the 80’s, which practically nullified the effects of the miracle and became this period known as the lost decade. In the 90’s the country experienced a strong fiscal and monetary adjustment, which eliminated the inflation, one of the main instruments of income concentration among the population, and the economy became more solid and fortified, paving the path for Brazil to grow in a sustainable way.

The 2000’s comes out with a big challenge for the Brazilians. The country remains as one of the most unequal countries of the world, even if compared with the poorest ones. The taxation system, very regressive, not only helps to keep the *status quo* but also increases the concentration itself. In 2004, the PPA 2004-2007, the strategic plan of government, stated as its first mega objective the social inclusion and the reduction of social inequalities. The growth of economy appears as the second mega objective. In fact, since there are complementarities between growth and the reduction of inequality to reduce poverty, the impact of the growth over the poverty tends to be bigger with the less inequality we have.⁵⁰

Since policies of income distribution plays an important role in order to counterbalance this machine of income concentration in the short term, the first measure to be implemented was to merge of the several programs of income transference into few ones, which the most visible is the Program *Bolsa Família*. The strategic plan recognizes that complementary policies will be necessary to deal with the poverty, and after 3 years (2004 to 2006) there is some evidence of the results and of the problems in their implementation.

The programs are well focalized in the poor and in the extremely poor, being responsible for 28% (7% from BPC and 21% from *Bolsa Família*) of the fall in the Gini Index between 1995 and 2004 in Brazil⁵¹. Since the conditionalities had a big

⁵⁰ Barros et al. (TD 1256), pp. 20.

⁵¹ Soares, p. 11.

impact to increase school attendance, it is one of the key factors to break the intergenerational transmission of poverty. In fact, it is very important not only to keep the transferences working for the target public, but to improve the enforcement of the conditionalities of education and health. On top of that, since the programs are demand-oriented, the allocation of resources must be well done in order not to sacrifice the improvement of the infra-structure necessary to recover the school itself and create the conditions to let the localities to boost their own economy by themselves.

However, there are problems that must be fixed in the future. The first deals with the improvement of the focalization of the program, in order to try to bring those who are eligible but still are not in the program yet and take out those who have more than the necessary income to be in the program. Proceeding this way the program will remain focalized in its target, the poor and extremely poor people (11.1 million families), since increases in the budget are becoming harder and harder to implement. At the same time it is necessary to improve the "way outs" of the program, helping people find their own path to generate their labor and income. Obviously, there is no simple answer for that, but it can change the objective of the program in the short term, from alleviation to eradication of poverty.

Finally, one of the risks of the programs of income transference relies on its high political potential. Usually poor people have little information about how these programs work and how they can be beneficiated, and this can be used in a wrong way. To minimize this situation it is necessary to guarantee that people understand how the programs work, that they have legal conditions of entrance and that is an obligation of the State to keep eligible people in the programs since the conditionalities are being satisfied.

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