

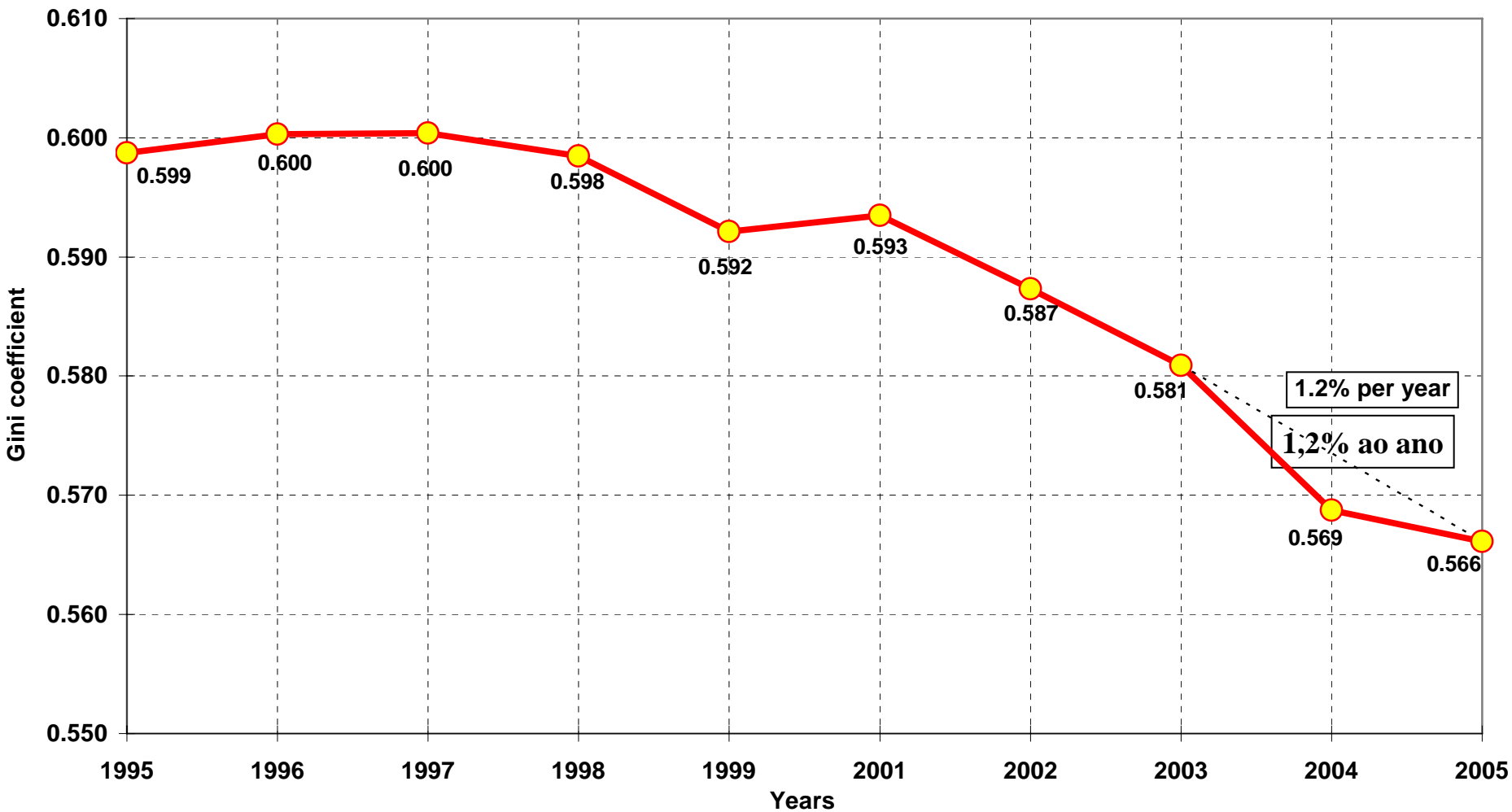
***The recent decline in income
inequality in Brazil: magnitude,
determinants and
consequences***

Ricardo Paes de Barros (IPEA)

Cuidad de Guatemala, July 2007

1. Magnitude

Evolution of inequality in per capita income: Brazil, 1995-2005 (Gini coefficient)

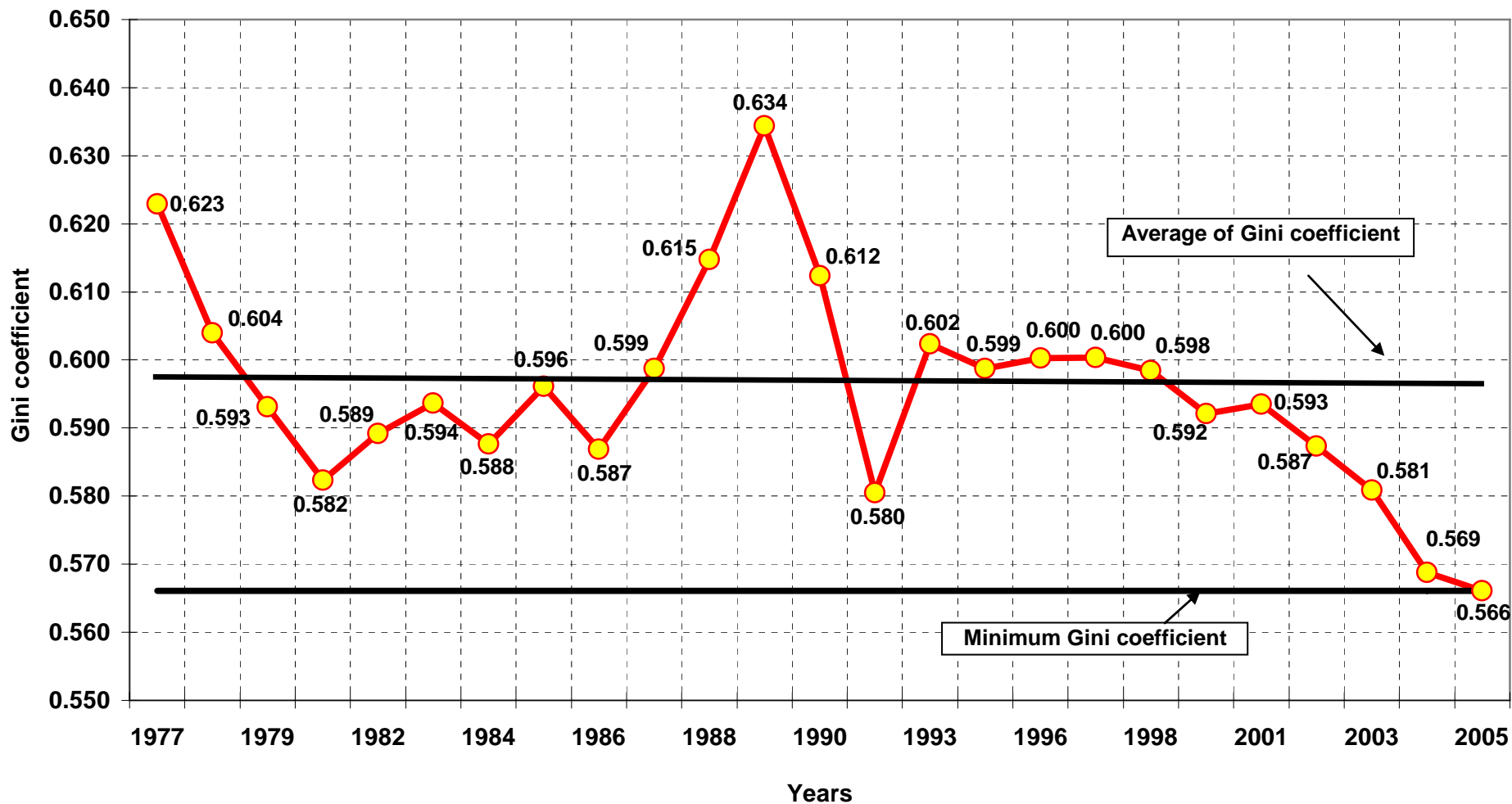


Source: Estimations with Pesquisa Nacional por Amostra de Domicílios (PNAD) de 1995 a 2005.

***Four reasons why this
decline must be
celebrated***

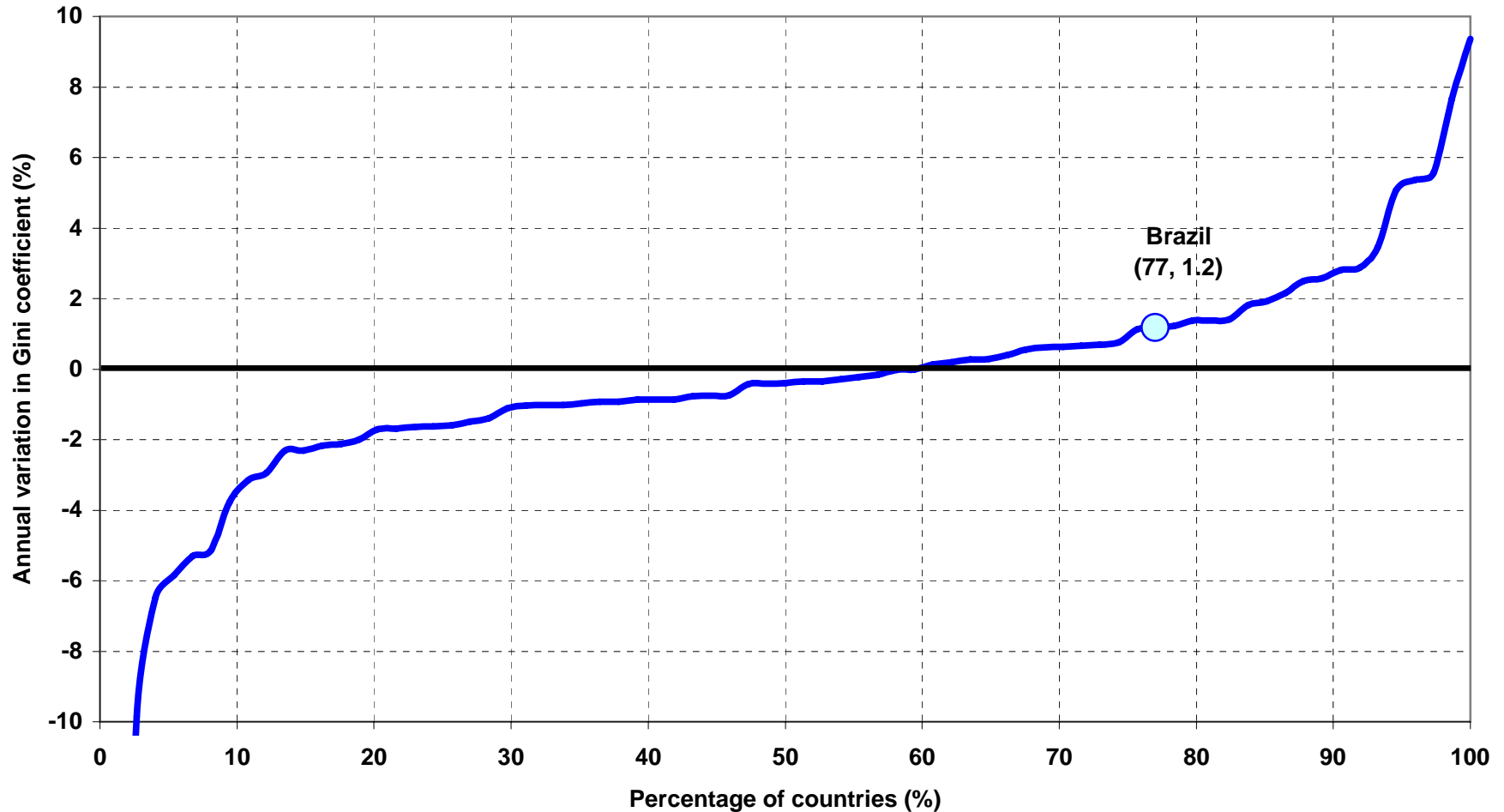
From the average to the lowest level

Evolution of inequality in per capita income: Brazil, 1977-2005 (Gini coefficient)



Few countries have reduced inequality faster than Brazil

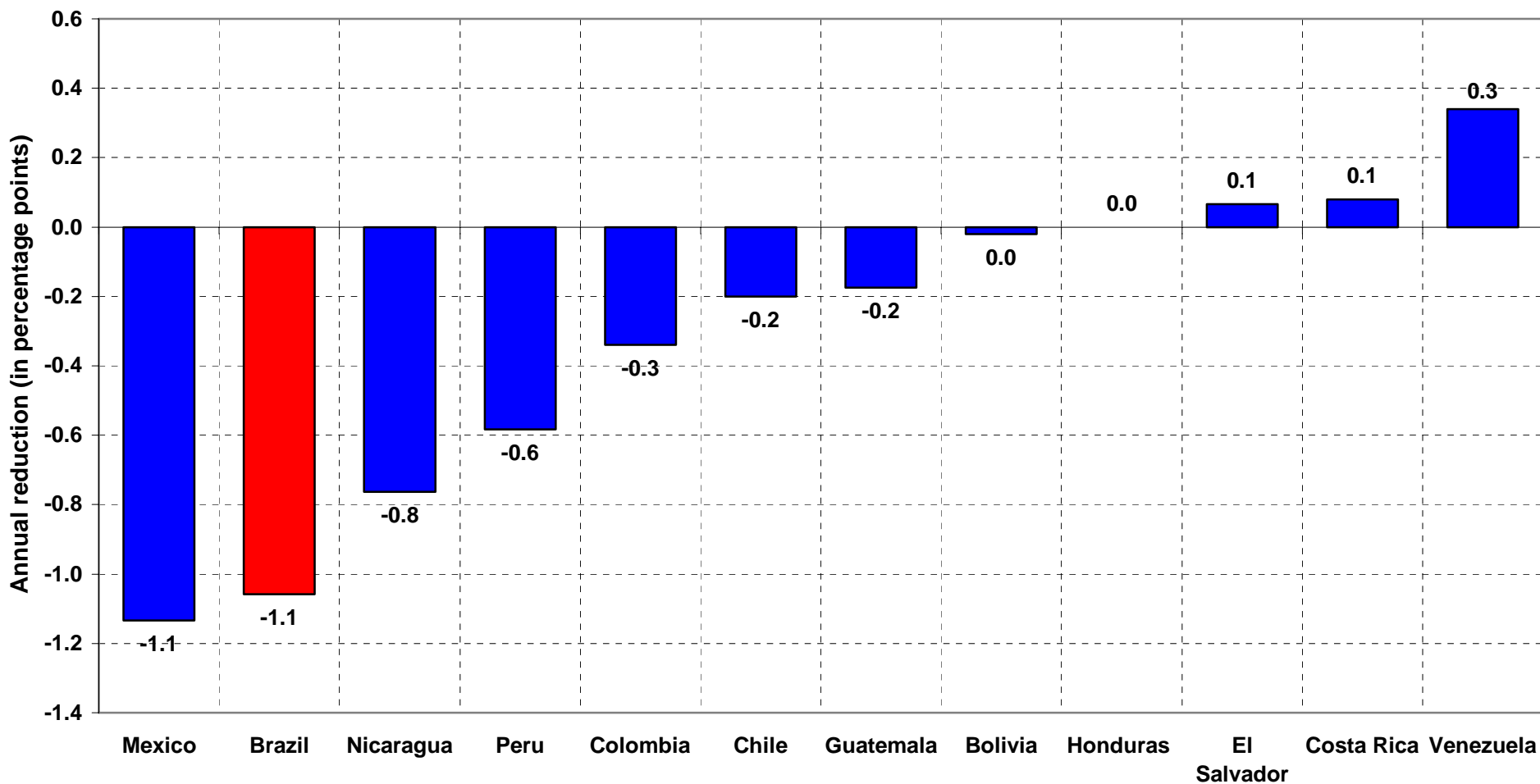
Distribution of countries according to the rate of inequality (Gini coefficient) reduction



Source: Data from Programa das Nações Unidas para o Desenvolvimento (PNUD) in World Income Inequality Database 2005 (WIID), <http://www.wider.unu.edu/wiid/wiid-introduction.htm>
Note: We considered 74 countries according to the existence of information on the evolution of inequality.

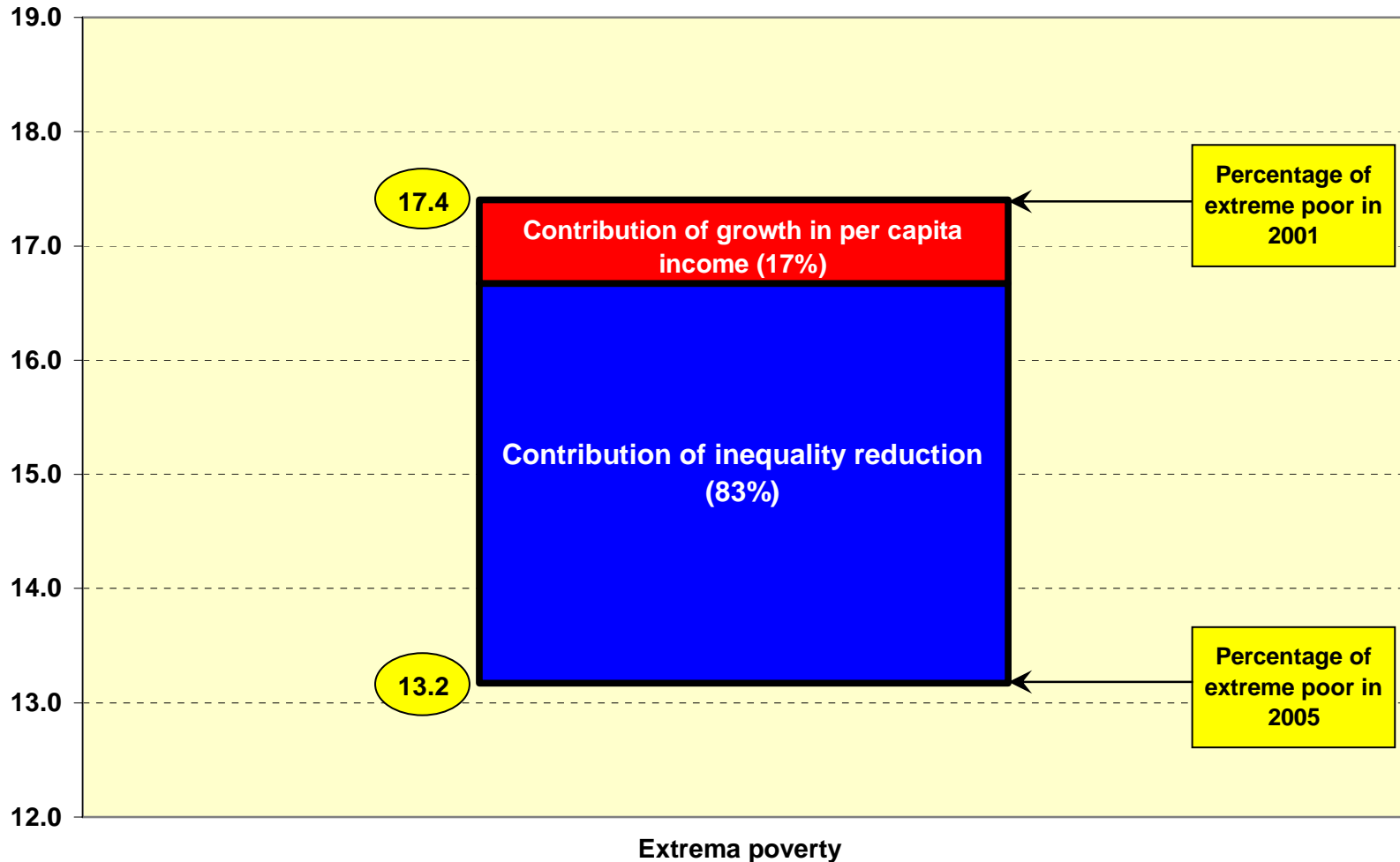
Poverty have declined three times faster than required by the first millennium development goal

Annual reduction in extreme poverty: Latin American countries

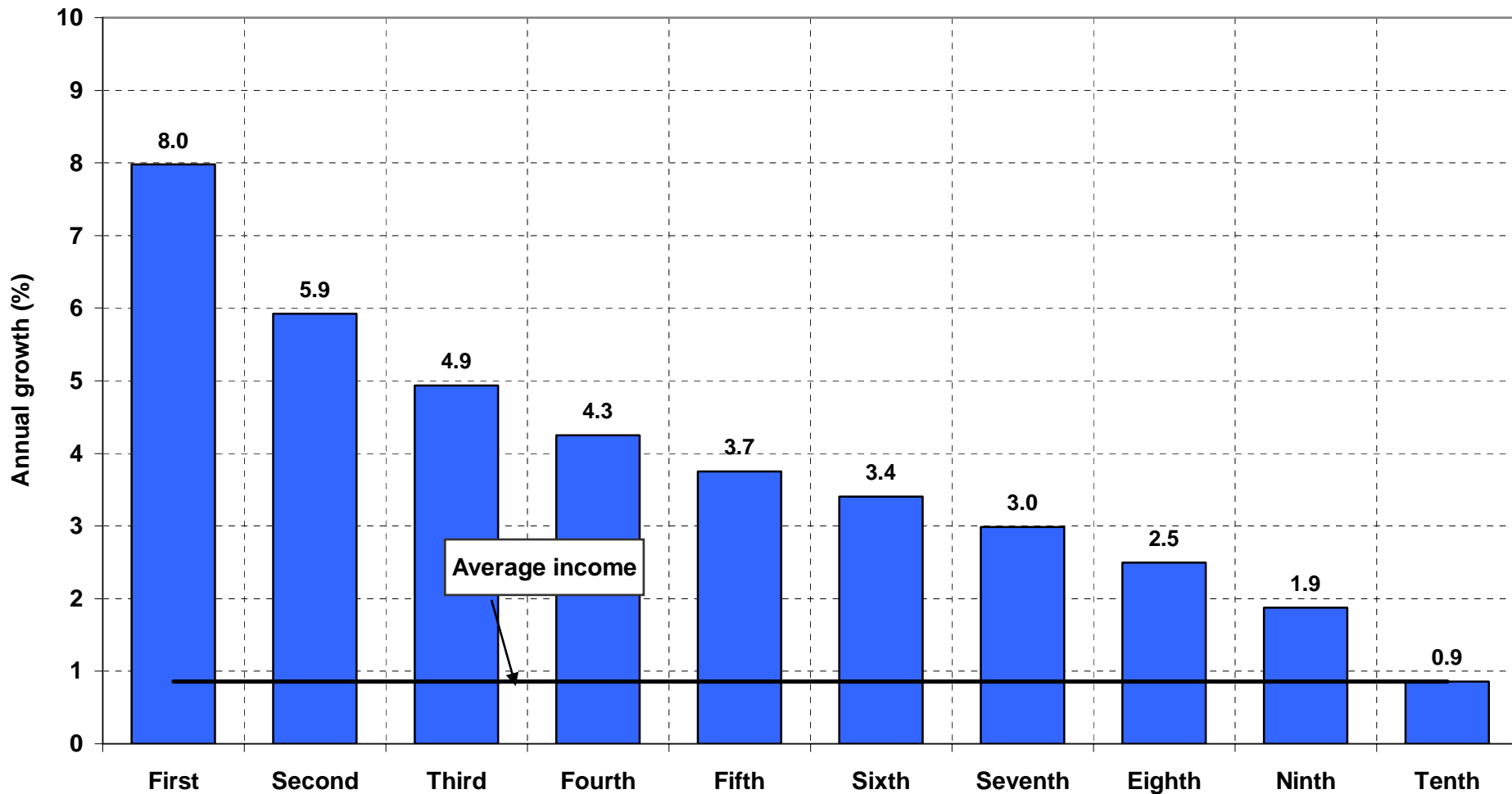


Most of the decline in poverty was due to the reduction in inequality

Decomposition of the reduction in extreme poverty in Brazil between 2001 and 2005

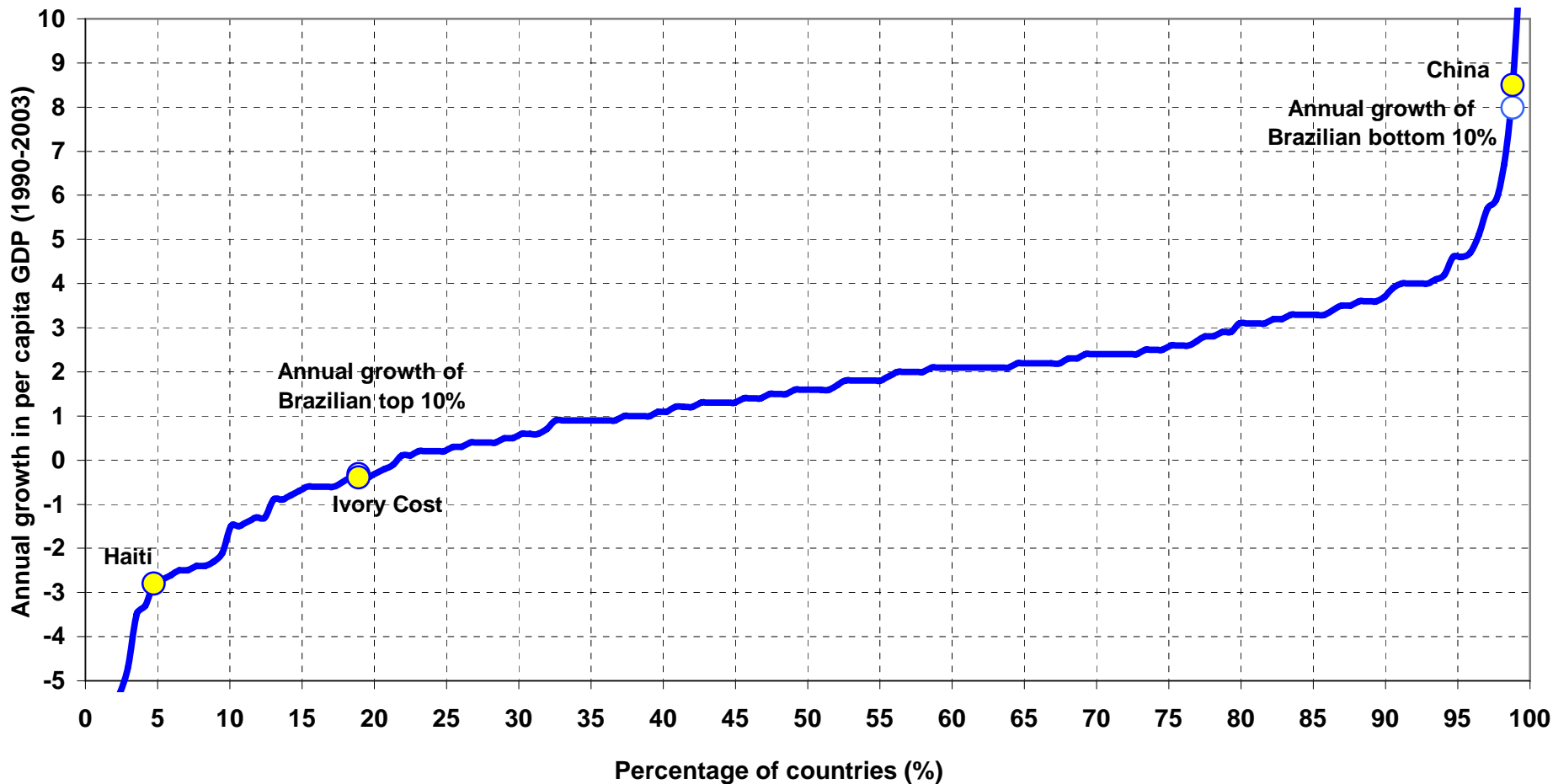


Annual growth in per capita income accumulated by the poorest percentiles - Brazil, 2001-2005



Over the past five years the income of the poor have been growing like the per capita GDP in China

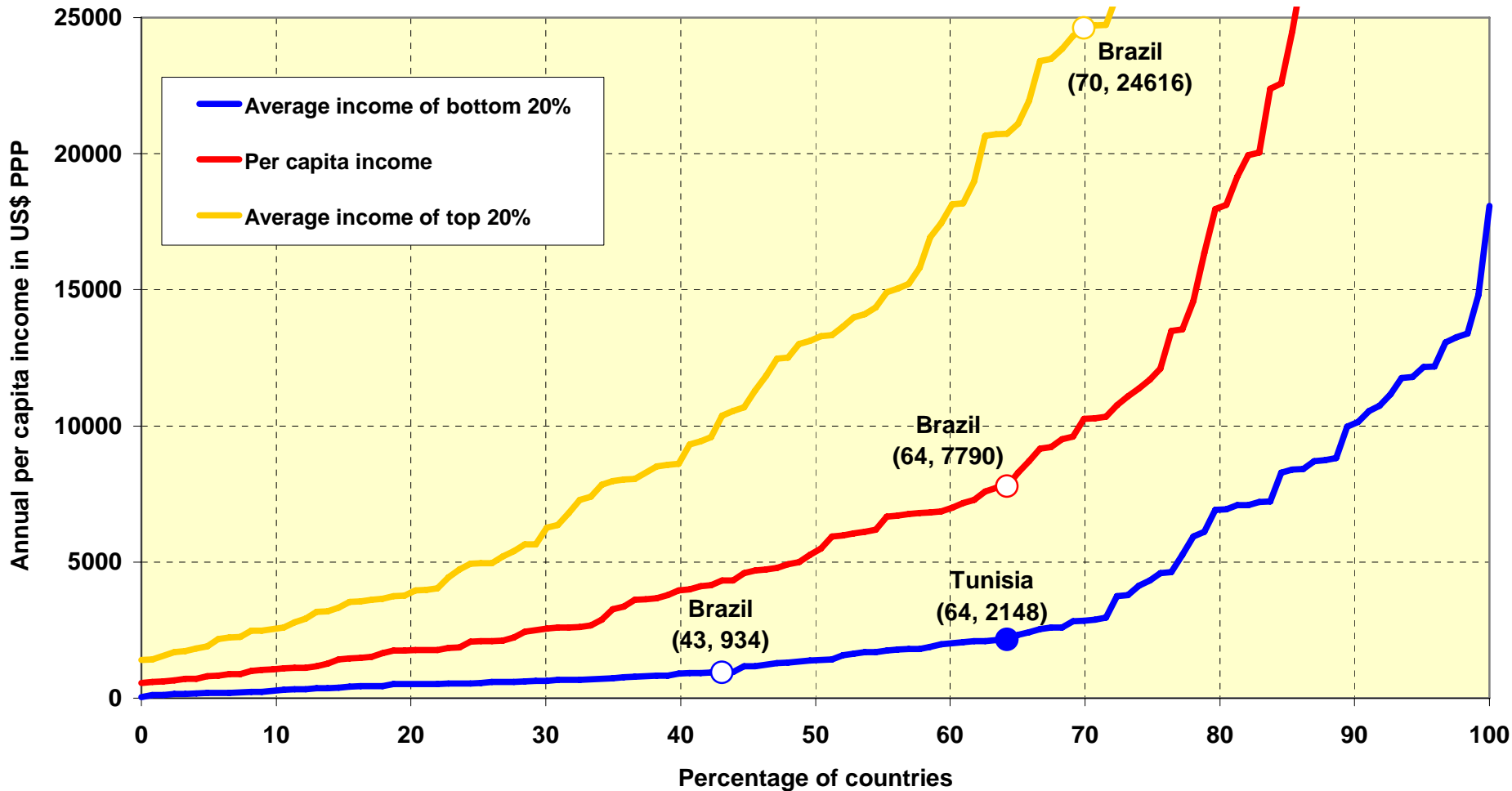
Distribution of countries according to annual per capita GDP growth rate during 1990 and 2003



The background is a dark blue gradient. A thin, light blue curved line starts from the top left and arcs across the middle. A larger, light blue shape, resembling a stylized 'C' or a partial circle, is positioned in the lower right quadrant, overlapping the main blue background.

The need for continuity

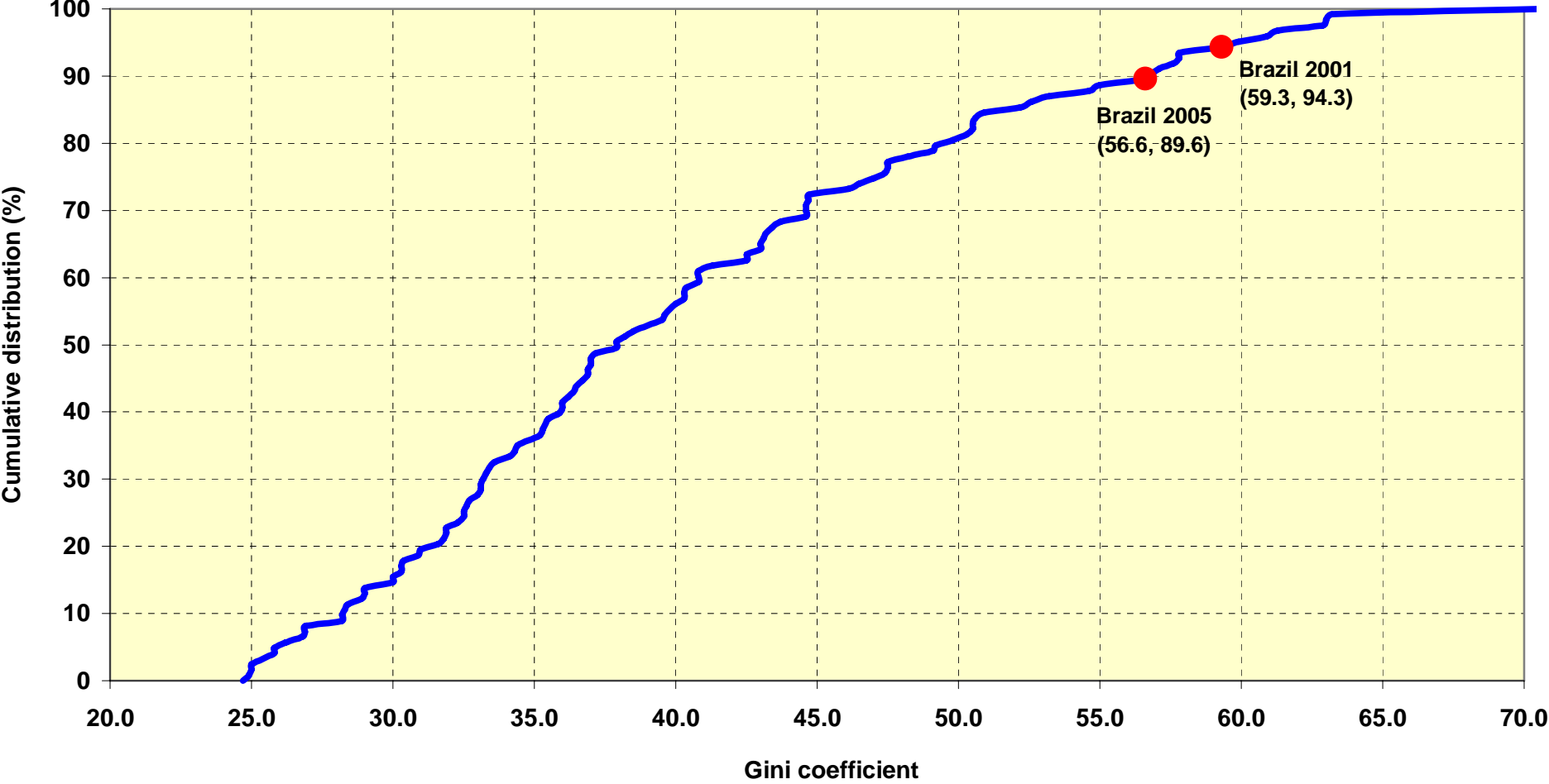
Distribution of countries according to per capita income, average income of top 20% and average income of bottom 20%



Source Human Development Report (2005) UNDP.

Note: We considered 124 countries

Cumulative distribution of countries according to inequality level - Gini coefficient

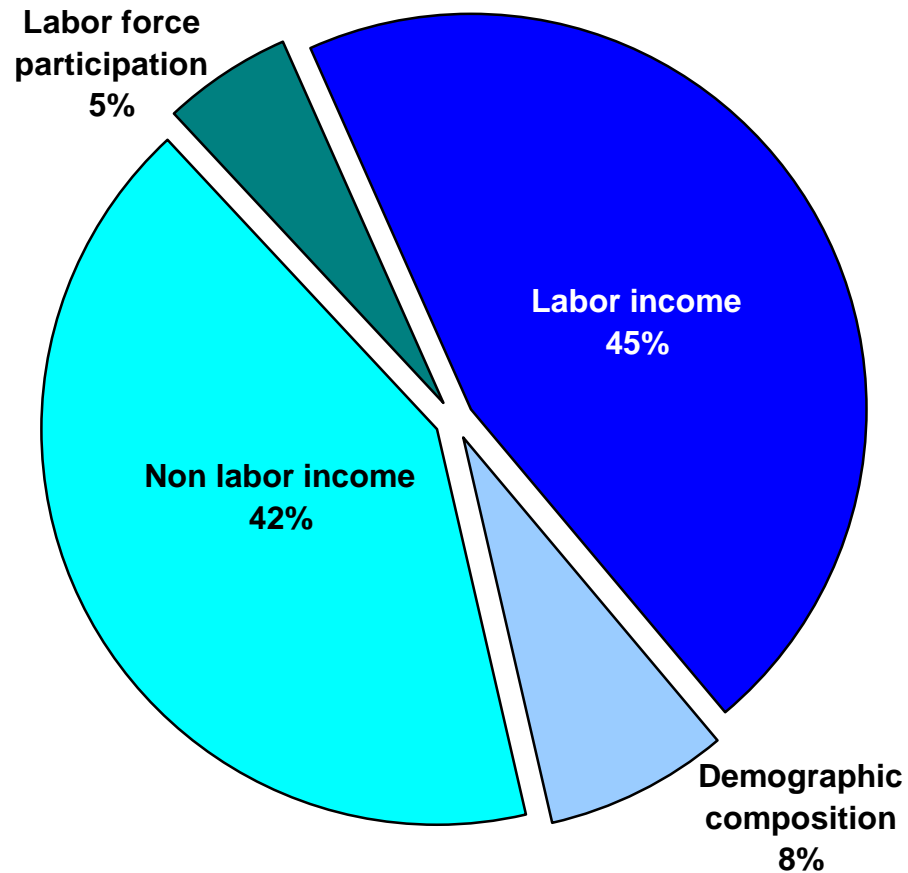


Source: Estimations produced with the Human Development Report (2005) UNDP.
Note: We considered 124 countries



***Immediate
Determinants***

Determinants of the recent decline in inequality in Brazil

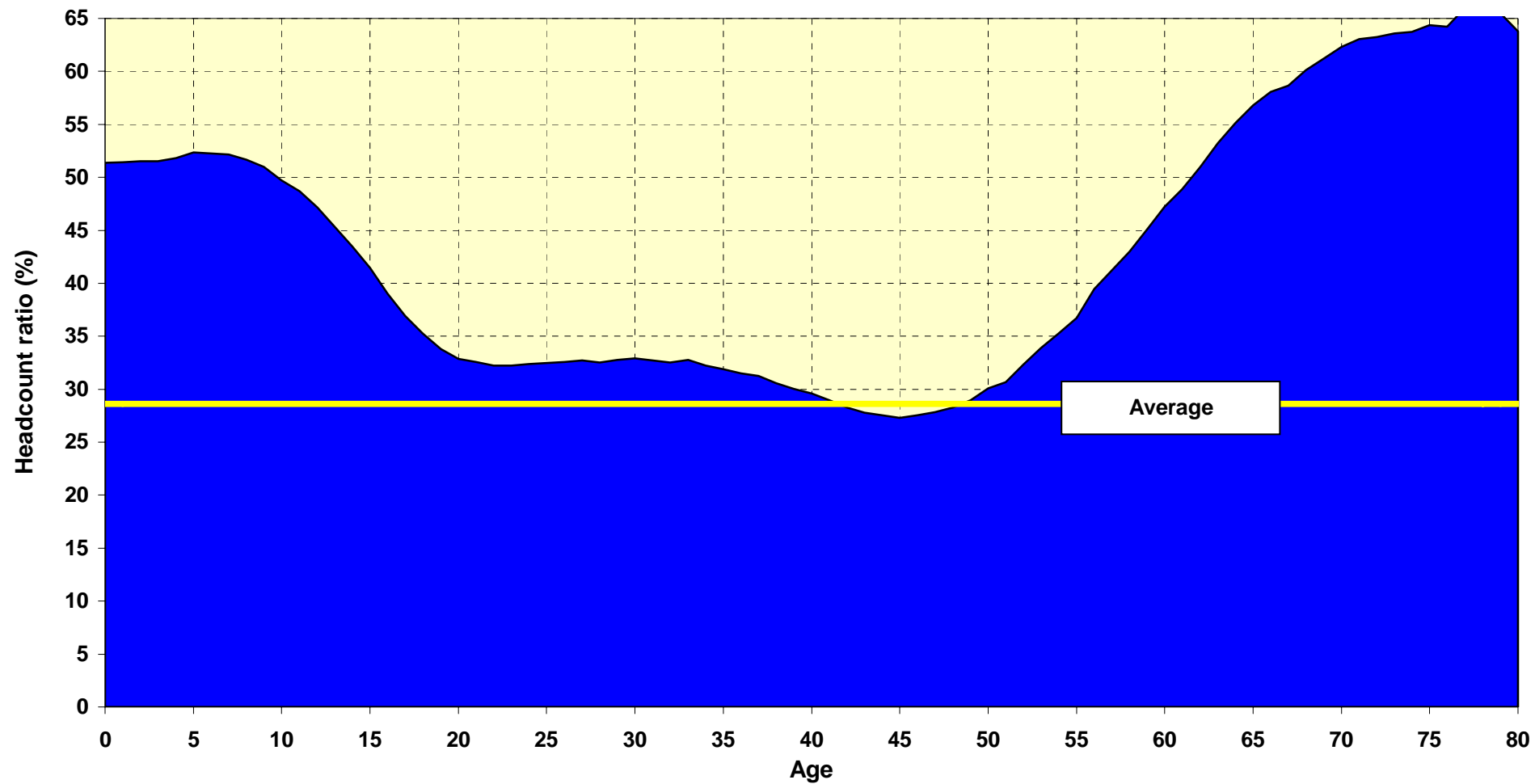


***The Life Cycle Bias of
Government Transfers
in Brazil***

Contribution of government transfers for the recent decline in income inequality and extreme poverty: Brazil 2001-2005

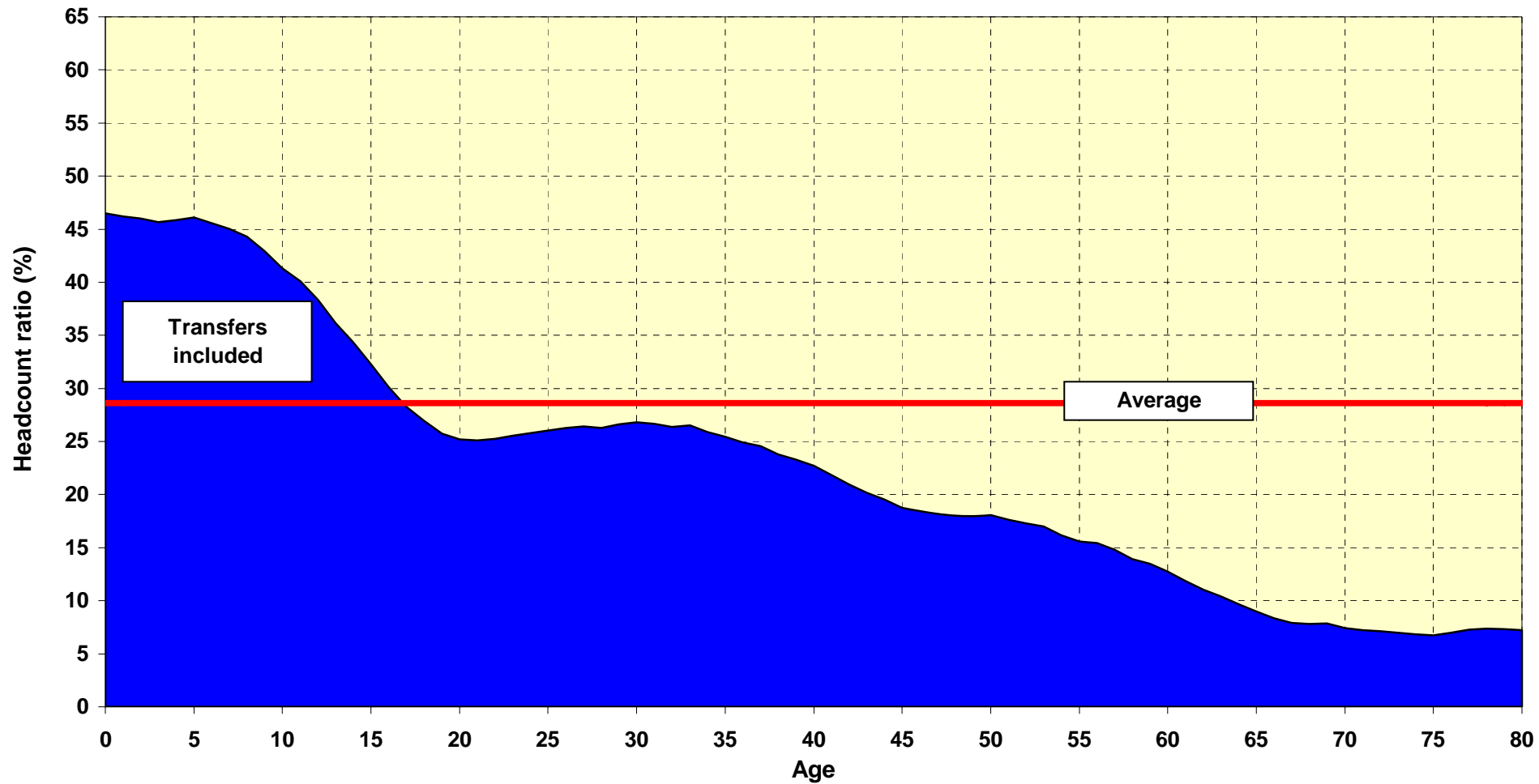
Type of government transfer	Gini coefficient	Extreme poverty		
		P0	P1	P2
Retirement pensions	26	16	16	17
Assistance for poor old and disable persons (BPC)	11	12	18	22
<i>Bolsa Família</i>	12	25	33	41

Poverty age profile without government transfers: Brazil, 2004



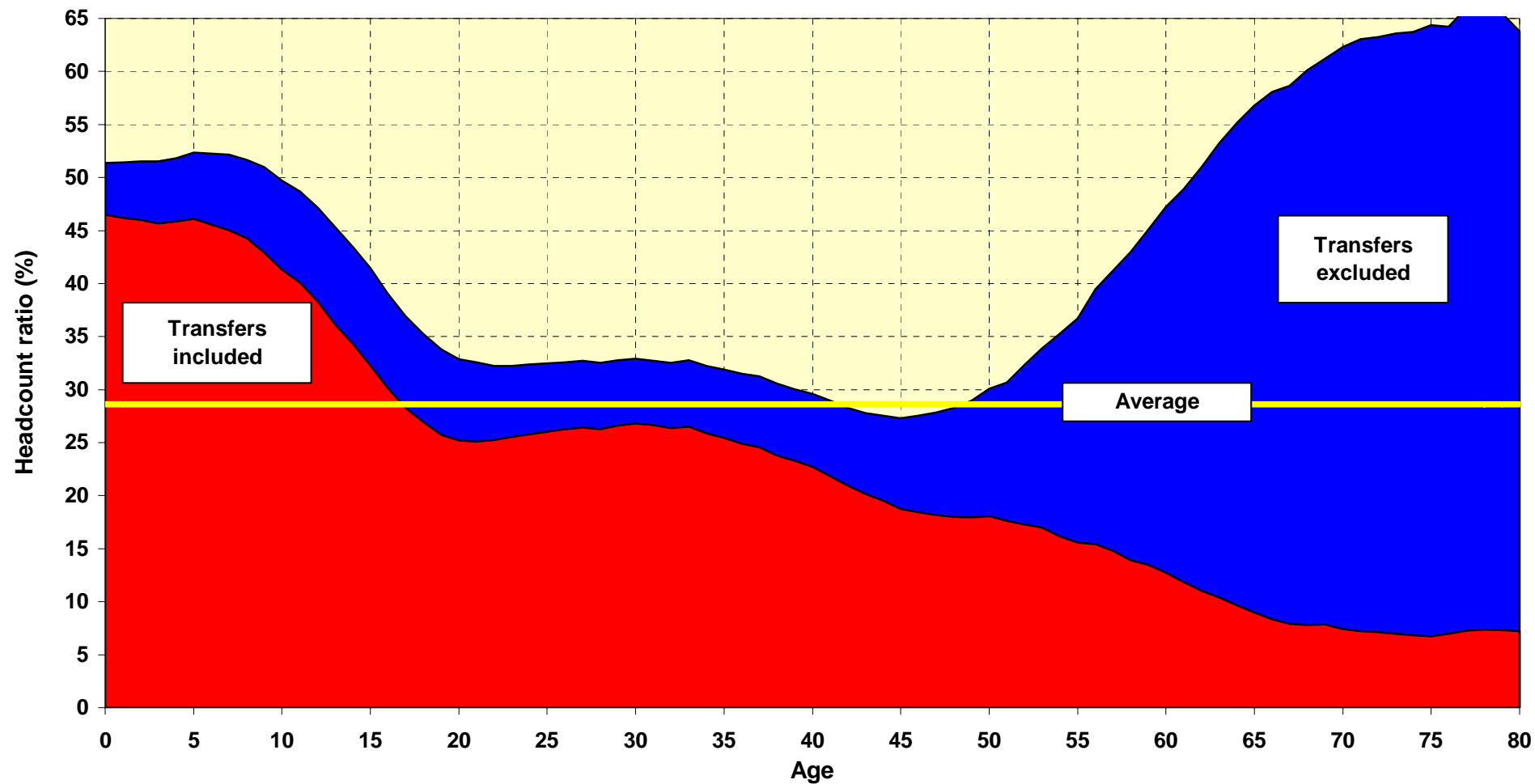
Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) - 2004.

Poverty age profile: Brazil 2004



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) - 2004.

Poverty age profile including and excluding government transfers: Brazil 2004

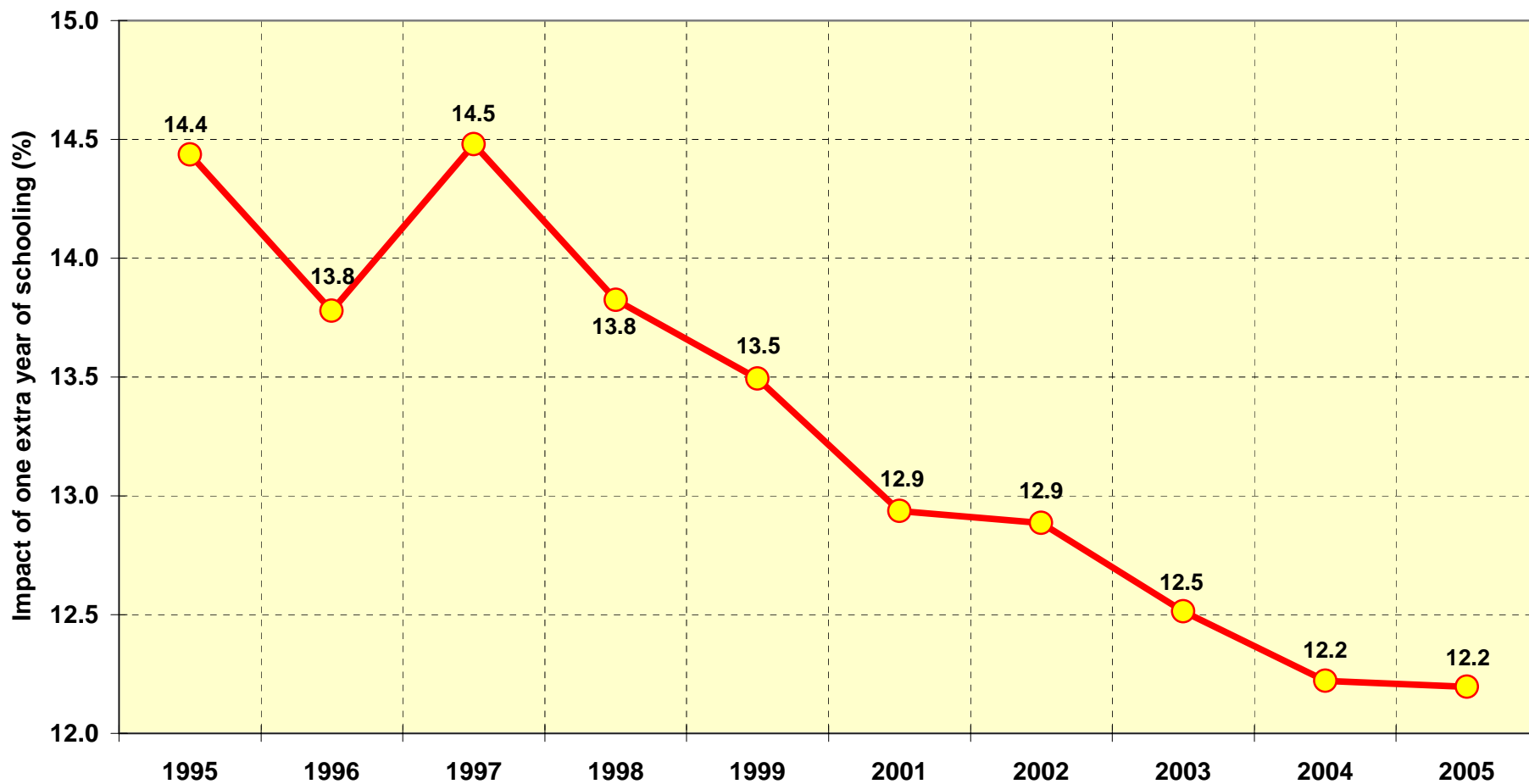


Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) - 2004.

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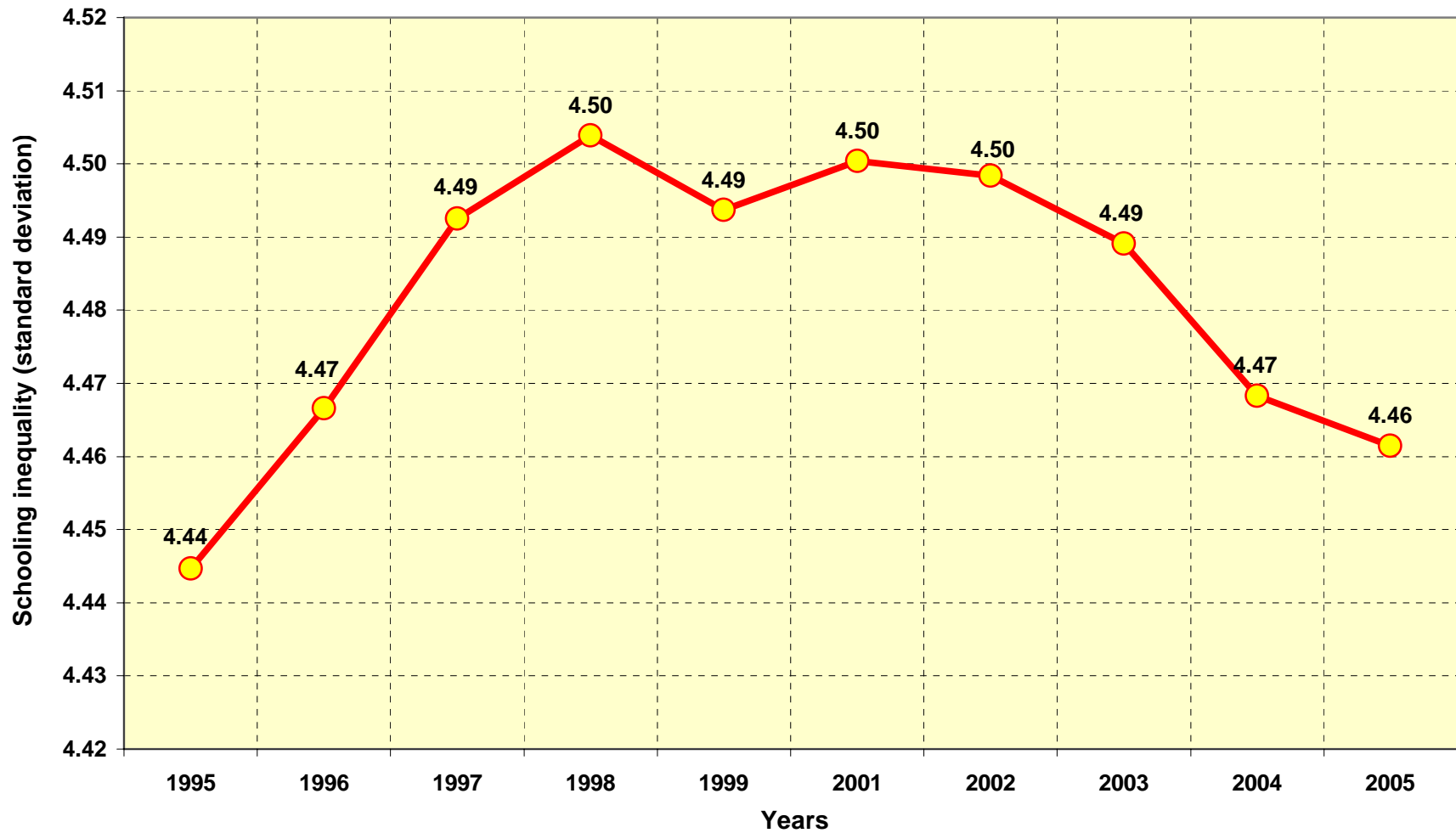
Educational Progress

Evolution of the impact of schooling on labor income: Brazil, 1995-2005



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 1995 to 2005.

Evolution of schooling inequality among workers: Brazil, 1995-2005



Contribution to reduction in income inequality between 2001 and 2005

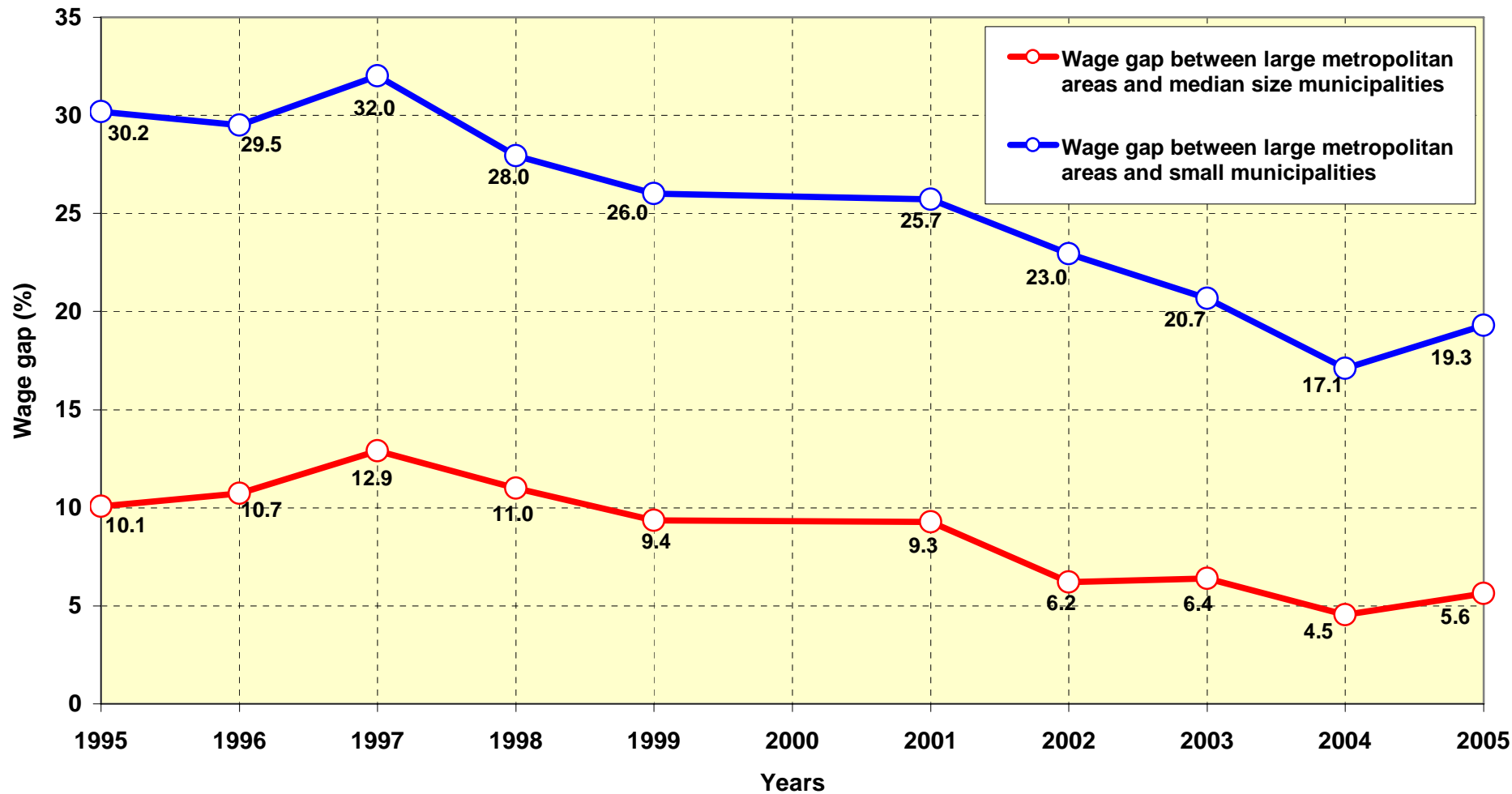
(%)

Characteristics	Price and quantity	Price	Quantity
Age and schooling	29	11	14
Age	2	-1	1
Schooling	19	12	5

Source: Estimations produced with Pesquisa Nacional por Amostra de Domicilios (Pnad) 2001 and 2005.

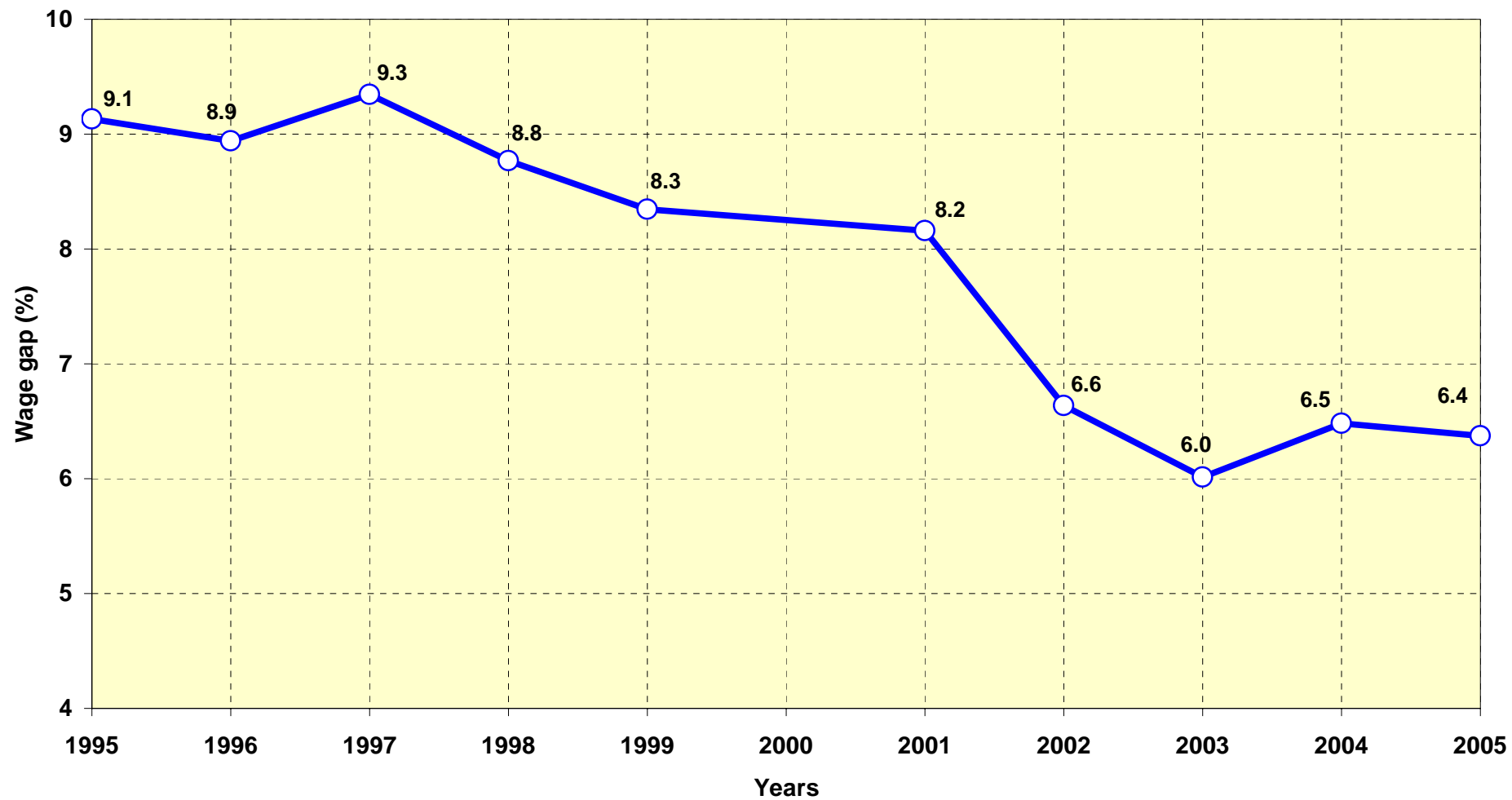
***Labor Market
Imperfections:
Discrimination and
Segmentation***

Evolution of the wage gap between large metropolitan areas and small municipalities



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 1995 to 2005.

Evolution of the wage gap between sectors of economic activity



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 1995 to 2005.

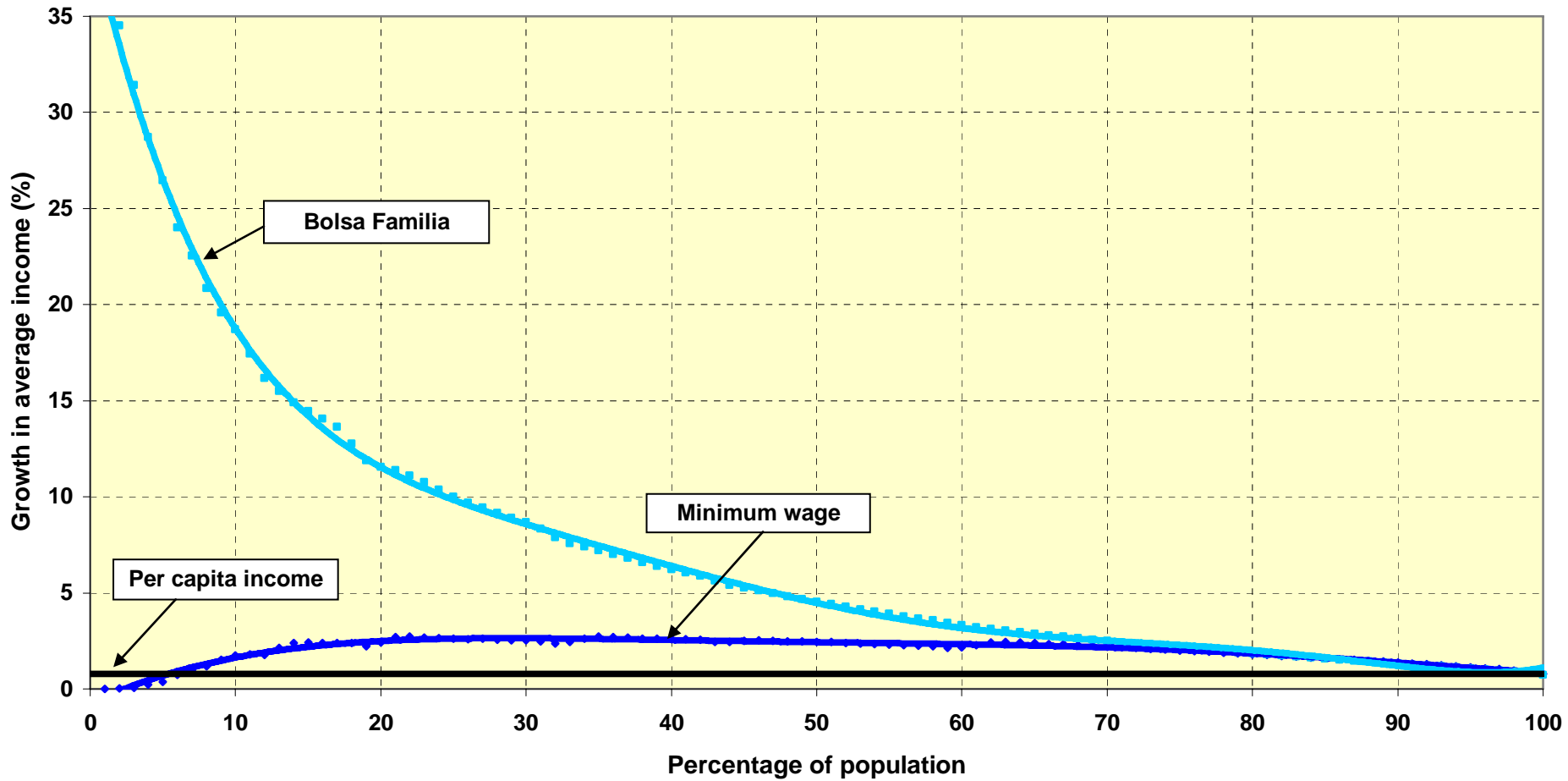
Contributions of reductions in labor market discrimination and segmentation for reductions in income inequality

Determinants	Contribution (%)
Inequality generated by labor market	18
Discrimination	4
Segmentation	14
Geographical	11
States	2
Urban-rural	3
Size of the municipality	7
Formal/informal	-7
Economic activities	10

Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 2001 and 2005.

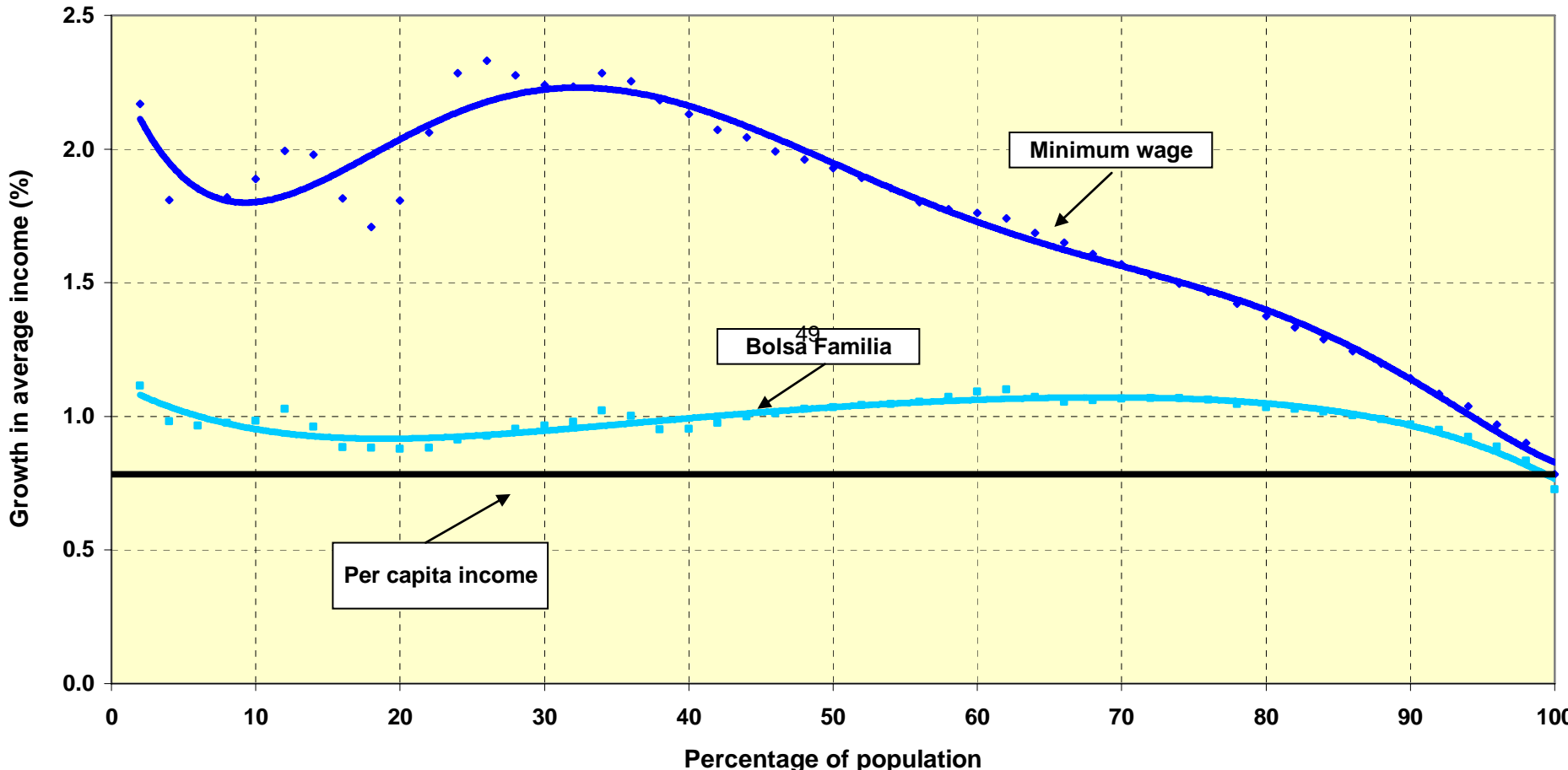
***The very limited
effectiveness of the
Minimum Wage Policy
for reducing poverty
and inequality***

The impact of increasing the minimum wage and benefits from Bolsa Familia on the cumulative income of the poorest percentiles



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 2005.

The impact of increasing the minimum wage and the benefits from Bolsa Familia on average income of the percentiles accumulated by the center of the distribution



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicílios (Pnad) 2005.