Brazil’s Economic Growth: With or Without Prosperity?

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Abstract
Currently, about 20 million people live in poverty (below US$2-a-day) in Brazil. The gap between the highest and the lowest social levels is high. A considerable part of Brazil’s population does not have access to basic services such as clean water, food and education. This situation prevails despite the progress made since the mid-1990s, when Fernando Enrique Cardoso became president, followed by various social programs implemented by the government of Luiz Inacio Lula da Silva, which lowered the percentage of people living below the poverty line considerably. Today, the biggest social challenge facing the Brazilian government and society remains to be a lack of education, housing, health care, and nutrition, especially for Brazil’s poor children. Close to one million of such children live in favelas or in the streets confronting miserable living conditions and even starvation.

I. Introduction

Today, as a result of globalization, we have witnessed countless scientific and technological advances in terms of communications and modes of production. However, this progress has not always been directed towards meeting the needs of the socially marginalized and the poor. Brazil is no exception. Despite its economic growth, the Latin American country has made little progress with solving the problem of poverty and inequality. Most of the social programs implemented in recent decades have been based on the idea of economic growth and spillover, meaning that prosperity will expand to all places and all people. Many initiatives have been designed to include certain sacrifices to achieve macroeconomic goals, with the belief that the benefits of economic progress will reach the whole population, including the underprivileged sectors.

Unfortunately, neo-liberalism has not fulfilled its expectations. Brazil is proof of this. The country is now an emerging power that stands out in Latin America due to its size and stable economic growth. Regardless of economic growth, there is a marked social polarity that has
hindered the achievement of social development in Brazil. Consequently, it is necessary to excavate the social costs that poverty and other related phenomena such as unemployment have. A clear example is the boost of crime, which is related to the misdistribution of wealth. Poverty also affects vulnerable groups such as women and children, who are left behind because of lacking education and lacking employment opportunities.

All of the above constitutes a vicious cycle that creates social division and encourages increasing social marginalization among the poorest sectors of the country. Nowadays capital is no longer considered only a financial asset, but also a human and social asset that is closely related to economic growth. Human capital refers to human resources, which requires paying special attention to key issues like health and education, while social capital includes shared values and culture within a society. Economic and social development based on knowledge has become increasingly important in recent years.

Given the complex nature of poverty, various measures need to be taken in order to reduce poverty. For example, the World Development Report 2000/2001 has outlined a plan to accomplish this objective based on: promoting opportunity, facilitating empowerment and enhancing security. It is clear that these actions require both global cooperation and developing countries putting together their own mix of policies to attack poverty, reflecting national priorities and local truths. In all of this, governments play a major role. Government must redesign itself. Today, there is a demand for government to redefine its organizational structures, to promote the creation of support programs and be more efficient in achieving its goals by developing a new institutional system that seeks to strengthen human and social capital. While economic growth is crucial for generating opportunities, reducing poverty is not that simple.

This article reviews Brazil’s progress with reducing poverty over the last few decades. The aim is to highlight the actions taken by the past administration on issues such as education and urban marginalization and to evaluate the results and effectiveness of those actions. The article is structured as follows. The next section briefly reviews the relatively large literature on poverty in Brazil. Section III provides some empirical background related to the subject in terms of Brazil’s political, economic and social history as well as the localization of poor in Brazil. The fourth section reviews key aspects of some poverty reduction plans, including issues such as marginality, health, education, hunger. The fifth section summarizes the main ideas of this article.

II. Brief Literature Review

There have been numerous investigations of poverty and inequality in Brazil. The following are some of the more influential studies within the last 15 years.

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1 There are various definitions of poverty. Some like Lakshman Yapa (1996, p. 707) state that “people are considered poor when they are unable to satisfy their basic needs for food, clothing, shelter and health”. On the other hand, the United Nations Economic and Social Council (ECOSOC) (1998) used a broader approach, defining poverty as “a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation”.

According to Verner (2004), the story of poverty in Brazil is a distinctive case in the matter because of the elevated rates of inequality and the heterogeneity of the poor’s level of income, human resources, and physical resources. A number of different aspects influencing poverty in Brazil can be mentioned. However, from Verner’s point of view, there are two crucial demographic characteristics that may affect the degree of poverty in a society: (a) the volume and distribution of resources and (b) the distribution of the population in the households. The first factor has direct implications on the endowments available to a particular group. In the particular case of Brazil, this factor may help to explain the widespread poverty amongst the rural citizens. The second one affects the labor market by determining the distribution of the population and family consumption variables.

Fiess and Verner (2004) affirm that the main characteristics affecting poverty in Brazil are changes in economic activity and macroeconomic stability, reduction in the fertility rate and increased urbanization rate.

Barros and Mendonça (1997) have analyzed the relations between economic growth, inequality and poverty in Brazil. They came to the conclusion that an improvement and progress in the distribution of income would be more effective for poverty reduction than economic growth alone, if growth maintained the current pattern of inequality. They affirm that because of the very high level of income inequality in the country, it is possible to dramatically reduce poverty among the Brazilians even without economic growth, just by reducing the level of inequality in Brazil close to the average of Latin America.

Sonia Rocha (1997) comes to the conclusion that a reduction in Brazil’s high inequality would require the reallocation of industrial activity to the peripheral regions. He comes to this conclusion based on the observation that concentrations of poverty are closely related to what occurs in Sao Paulo and the North East region.

Similarly, Barros et al. (2006) estimated that about half of the decline in inequality (between 2001 and 2005) stemmed from improvements in the distribution of non-labor income, associated primarily with larger and better-targeted social transfers.

III. Empirical Background

Brazil’s history is full of contrasts. Different schemes have dominated the political and economic life of the country from monarchies to populist governments and even military dictatorships. Since 1985, it has maintained a federal republican system, or as called among the Brazilians, the New Republic, characterized by a multi-party democracy. To understand Brazil’s current situation regarding poverty and development, it is necessary to understand Brazil’s political, economic and social background as well as the locality of Brazil’s poor.

III.1. Recent Political History

For more than 30 years, Brazil’s political history has been dominated by a transition to democracy and economic stability. After years of military dictatorship, in 1984 the “Já Diretas” movement mobilized millions of Brazilians who demanded direct elections for the president. Four years later, a new constitution was promulgated, reestablishing a democratic state and a
presidential republic. In 1989, Fernando Collor de Melo won the first elections for president held since the military coup in 1964.

Table 1: Brazil’s Economic Plans

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<th>Plan</th>
<th>Main Measures</th>
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| **Cruzado (1986)** | • Change currency: from Cruzeiro to cruzado.  
• Wage and price freeze.  
• Termination of the restatement.  
• Creation of unemployment insurance.  
• Automatic adjustment of wages, with certain level of inflation.  
• A moratorium was decreed and the payment of external debt was suspended. |
| **Bresser (1987)** | • Maintenance of price and wage freeze and moratorium.  
• Increase in public tariffs.  
• End to the automatic salary adjustment. |
| **Verão (1989)** | • Control of the public deficit to tame inflation.  
• Privatization of state enterprises.  
• Freeze on prices.  
• De-indexation of the economy |
| **Collor (1990)** | • Forfeiture of 80 percent of bank deposits and financial applications.  
• The Cruzeiro returns as currency.  
• Price freeze.  
• Dismissal of officials.  
• Privatization of state enterprises.  
• Closure of public bodies.  
• Opening of the economy to international competition. |
| **Real (1994)** | • New currency: The Real.  
• Exchange rate parity 1 real = 1 dollar.  
• Acceleration of privatization.  
• Interests increase.  
• Facilities for imports.  
• Control of public spending.  
• Open economy  
• Measures are sought to support the modernization of enterprises. |
| **Real (1999)** | • Free exchange rate fluctuation.  
• Reducing interest rates on loans to individuals. |

Collor, a senator from the province of Alagoas, won the election with a campaign based on promises to fight corruption, as well as by promoting an image of a young and dynamic leader. However, after two years in office, the president’s own brother made public allegations of corruption. Subsequently, Brazil’s Congress created the Parliamentary Investigation Commission (CPI) to conduct research on issues of corruption and fraud.

Collor resigned and Vice President Itamar Franco assumed the presidency of Brazil. Under his presidency, the “Real Plan (Plano Real—a successful economic stabilization plan with a new currency: the Real)” was adopted. The plan was implemented by the minister of economy at the time, Fernando Henrique Cardoso. Given the success of the plan, providing stability to the Brazilian economy, Cardoso was elected to be president in 1994 and reelected in 1998. In 2002, Luiz Inácio Lula da Silva was elected to be president, and given the success of his social programs, he also was re-elected four years later. In 2011, Lula was succeeded by the current president, Ms. Dilma Rousseff.

III.2. Recent Economic Stabilization Plans

In the economic sphere, the period of the New Republic is marked by a number of different economic situations and complications. Following the debt crisis of the early 1980s, the country carried out various economic stabilization plans. Table 1 below shows the main features of the economic plans established during the New Republic. The first plan of 1986 was the Cruzado Plan (named after changing Brazil’s currency from the Cruzeiro to the Cruzado) ended a general price freeze, but was not successful in stabilizing Brazil’s economy. Hence, it was followed by several other stabilization plans: the Bresser Plan (1987), the Verão Plan (1988) and the Collor Plan (1990). The latter was marked by the seizure of 80 percent of financial assets, plunging the economy into a recession. In July 1994, the successful Real Plan was launched.

**Figure 1: Real Annual GDP Growth (percent), 1981-2008**

![Figure 1: Real Annual GDP Growth (percent), 1981-2008](source)

With the *Real Plan* of 1994, the exchange rate was fixed, which brought down inflation, reduced commercial interest rates, and finally stabilized Brazil’s economy. The plan also came with a wave of privatizations. The domestic steel, petrochemical and fertilizer industries were privatized, as well as the electric and the communications sectors. In January 1999 the Central
Bank abandoned the system of fixed exchange rates. As shown in Figure 1, during the last decade (1999-2008), Brazil’s economy has fully stabilized, growing at an average annual real GDP growth rate of 3.3 percent.

### III.3. Recent Social Background

With a Gross National Income (GNI) per capita of US$ 10,607 in purchasing power parity (PPP), Brazil is today the 70th richest country in the world (see United Nations Development Program, 2010). The same source shows that Brazil ranked 73rd in terms of human development. However, average numbers can be deceiving due to several reasons; one of the most important: unequal distribution. Figure 2 shows the percentages of people living below US$1.25-a-day and below US$2.00 from 1991 to 2007. Furthermore, despite economic growth, Figure 3 shows that unemployment rates have increased mostly in the 1990s and remain (with about 10 percent) high.

![Figure 2: Poverty Headcount of Brazil, 1991-2007 (in percent)](source)

Source: Created by author based on World Bank (2010) *World Development Indicators* (as posted on the World Bank website; downloaded on May 5, 2011; data for 1990, 1994 and 2000 are estimates based on existing data for other years).

![Figure 3: Total Unemployment (percent of total labor force)](source)

Despite some progress, inequality and poverty remain serious problems in Brazil. Poverty becomes more relevant today, given the economic expansion and positioning of Brazil as an emerging power on the international arena. As will be shown in more details in Section IV below, the administration of President Luiz Inacio Lula da Silva had implemented various programs to fight poverty; all of them directed at key factors of social development such as providing access to food, health and education. There is broad agreement that the country must continue to invest heavily in these social areas to reduce poverty and inequality.

III.4. Location of the Poor: Favelas

Large cities in Latin America are generally characterized by a significant proportion of their population living in slums. In Brazil, it has been estimated that over 6.5 million people (3.6 percent of the total population) live in precarious conditions in slums. In Sao Paulo (Brazil’s largest city), there are about two million people living in slums, while there are about 1.4 million slum dwellers in Rio de Janeiro (Brazil’s second largest city). In the past decade, the population living in favelas grew 39 percent. Informal cities are a challenge for the promotion of cities mainly because the characteristics of the urban informal sector are numerous and rapidly changing.

In the world of urban poverty, the traditional relationship between residential location and workplace location (or locations of potential income) is one of the key elements to explain the spatial distribution of poor households. In addition, other variables such as the spatial segmentation network of services and public facilities play a major role regarding this matter. In the past, favelas were surrounded by factories and people settled there to find a job and save on transportation. By now, many of those factories closed, largely due to crime and insecurity, and people have realized that living in safe neighborhoods is perhaps more important than living close to sources of work.

Most favelas were settled a long time ago. Poor workers used to live there in very precarious conditions without water, electricity, sanitation, healthcare or education. According to Vera Malaguti (a professor of criminology and general secretary of the Institute of Carioca Criminology), 20 people are killed each day in Rio de Janeiro as the city became “a laboratory of genocidal techniques”. Rio’s police is the one who kills the most in the world, but they don’t do it on a whim: Brazil is a paradise of wild capitalism, the most unequal country in the world and Rio de Janeiro is a strong area of real estate speculation that intensifies as the big events approach.

The Batalhão of Policiais Operações Especiais (BOPE), was created during the military dictatorship in 1978, but only received its current name in 1991 to meet the challenges to public safety. The BOPE was conceived as a war machine: “It does not receive training in how to interact with civilians or how to control those who break the law: its sole purpose is to invade enemy territory.” According to Zibechi (2010, paragraph 9), the hymn chanted by the BOPE in

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3 According to the Brazilian Institute of Geography and Statistics (IBGE), as reported by the newspaper O Estado de Sao Paulo, and referred to in Perlman (2009). The favelas included for this statistic are those of Brazilian regional capitals.
4 See Perlman (2009).
5 Vera Malaguti, as quoted in Zibechi (2010), see paragraph 4.
6 Zibechi (2010), paragraph 4.
training states that the mission is to “invade the favela and crush everybody.” The emblem of the body is a knife in the skull and its color is black. For years it had only 150 members which now number almost 400. Shortly before the Pan American Games in July 2007 in Rio de Janeiro, the military police invaded the Complexo do Alemão, one of the poorest neighborhoods, with 1,300 troops and killed 30 people. According to the Ministry of Human Rights, many of these deaths were “summary executions”.

Now a wall is being built around thirteen favelas with the excuse of protecting nature. This is just an example of what could happen in the coming years to provide security for the World Cup and the Olympics. BOPE is renewing its supply of arms with the addition of new machine guns, explosives detection equipment and special tactical missions. According to Vera Malagutti, the government considers the presence of the poor to be damaging to big business and real estate speculation. Therefore, they must be exterminated. The walls in construction around the favelas are defined by her as a fascist fence for the poor.

IV. Key Aspects of Some Recent Poverty Reduction Plans

Recent studies analyzing poverty and economic growth in Brazil have concluded that the lack of investment in human capital is a central element in explaining the large difference between economic growth rates and social inequality. It can be said that the biggest social problem in the country, is the marginalization of some of Brazil’s population. Today, the inability of large parts of Brazil’s society to access the most basic utilities such as water, food and education, represents an increasingly common reality. The origin of this marginality is deeply associated with the nature and characteristics of the country’s economic structure. Like in most underdeveloped countries, especially in Latin America, serious damage was done by the lack of competitiveness and the dependence on industrialized economies.

The former Brazilian government acknowledged and understood that overcoming poverty required a shift in the policies implemented. Some of which are (a) the adoption of structural and global policies in order to achieve the goal, (b) build a quality education system, which ensures for the population, without exclusions, adequate training, as well as solid life values, (c) urban planning in general, preventing the growth of the marginal sectors in the cities, and (d) invest in education, health and general social security systems that are efficient and have in fact an impact on improving the quality of life of the majority of the population.

IV.1. Programs in the Health Sector

According to the website of the Brazilian Health Ministry, the government facilitated the population access to health services, seeking to be more preventive and educational. Good examples are the efficient fight against dengue, the increase in immunization rates (shown in Figure 4 below) and the following three programs:

a) The Family Health Program has created 3,200 new groups, adding up to 19,943 volunteers serving 65 million people. At the same time, they hired 13,040 new community health workers, totaling 201,543 volunteers serving 96 million people at home.

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8 See Zibechi (2010).
9 See Zibechi (2010).
b) The “Smiling Brazil” program aimed to improve the oral health of Brazilians. Important strides were made in preventing caries in children. This program has benefited 39.2 million people.

c) Through the Health Care Emergency System (SAMU), one hundred popular pharmacies have been installed with the goal of free distribution of medicines. In addition, 132 medical units were constructed in 1,200 municipalities and 252 ambulances were delivered of a total reach 1,080 units.

**Figure 4: Immunization Rates for DPT (percentage of children ages 12-23 months)**


### IV.2. Brazil’s Zero Hunger Program

Brazil’s “Zero Hunger” program (see the widely advertised logo in Figure 5), initially formulated and popularized in 2001, and then adopted as a governmental priority beginning in 2003 (see Belik and Del Grossi, 2003, p. 4), included sixty public programs to fight poverty, with the participation of civil society, ranging from land reform, job training, cooperatives, family farms, to complex and diverse programs that created the conditions for people to escape poverty. Popular education was key component of this plan. The government began affirming that it was not enough to give people material things. It was also necessary to produce a new class of political activists of political actors.¹⁰

¹⁰ For further details, see Betto (undated).
IV.3. Brazil’s Education System

The consideration of human development as the starting point of any growth process has made it clear that education and development are closely related. For over forty years the term human capital was coined as the productive capacity of a person enhanced by agents such as education.

During the World Conference on Education in 1990, it was noted that education was a vital factor to achieve economic, social and cultural development. Thus, a proper education policy could become a force for economic and social development. The Brazilian government acknowledged this by stressing that it is the government’s obligation to provide education at all levels, as well as moving steadily to increase the years of schooling of the entire population.11

A program called “Literate Brazil” was implemented, seeking to increase the schooling of children and adults, promoting access to education as a right of everyone at all times of life, emphasizing quality education and a better utilization of public resources. The school program served 37.5 million students and for the first time the government distributed aid to 881,000 children in nurseries. Similarly, the government proposed the establishment of vacancies for public school students, especially blacks and Indians and the granting of scholarships for poor students in private universities. Other innovations were implemented like the distribution of free textbooks for students in public schools.

While literacy rates have increased (see Figure 6), Brazil’s school enrollment ratio for primary education has gone down since 2004 (see Figure 7). The causes for this striking phenomenon (especially as school enrollment ratios have increased in most other Latin American countries) will have to be studied further in the future.

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11 In accordance with Article 21 of Law Nº 9,394 of 1996, which implements the guidelines and bases of the national education system, education in Brazil consists of the following levels: (a) basic education, covering primary education, basic education and secondary education, and (b) higher education. The educational system of the nation includes public institutions (which are free at all levels) and private institutions. The highest authority in this matter would be the Ministry of Education, primarily through the Federal Council of Education. As an interesting fact, the Federal Government handles at least one public university in each state of the Federation. Access to these institutions is known as "vestibular", and is key because compared to the high demand for higher education in the country, there are only a very few university places.
IV.4. Program for Growth Acceleration

For some time now, Brazil has introduced a new model of economic and social development, whose main characteristic is the combination of economic growth with income distribution. The primary purpose is the reduction of poverty and the inclusion of large numbers of Brazilians to the formal labor market. In the second half of the past decade, the government of achieved a stable economy, a favorable environment for investors, maintained the principle of fiscal responsibility, reducing the nation’s dependence on foreign financing, increasing substantially the share of Brazil in global trade, as well as achieving significant surpluses in the trade balance is concerned. With all of the achievements above, there is the possibility of directing the State to
faster growth, but overall to development, expanding the benefits to the whole population and at the same time respecting the environment.

Between 2007 and 2010, the challenge of the government’s economic policy was to take advantage of the favorable historical moment for Brazil stimulating the growth of gross domestic product and employment, increasing social inclusion and progress in income distribution. Based on the foregoing, the authorities in turn created the Growth Acceleration Program (PAC), which has as one of its main features, the tax extension to encourage greater investment in Brazil. Through the PAC tax reduction for semiconductors, digital television equipment, computers, supplies and services used in infrastructure, as well as of steel were encouraged. Similarly, this program provided long-term fiscal means, such as the modernization and upgrading of the tendering process, a key issue to ensure the balance of public expenditure.

Although already partially mentioned, the measures for economic growth in the country were: the stimulus to credit and financing, improvement of the investment environment, extending and expanding tax and ultimately long-term fiscal and legal consistency. PAC entered its second phase in March 2010, when President Luísa da Silva announced $526 billion dollars in public and private investment over 2011-2014. PAC 2, shares many characteristics with the first phase of this project, putting emphasis on investments in the logistics area, social and energy development, organized into six major initiatives:

a) Best Cities (urban infrastructure),  
b) Community Citizenship (security and social inclusion),  
c) My House, My Life (housing),  
d) Water and Light for All (sanitation and access to electricity),  
e) Energy (renewable energy, oil and gas), and  
f) Transport (roads, railways, airports).

At the time, President Luiz Inacio Lula da Silva said he believed the efforts of the PAC 2 could be viewed as a series of projects that the next administration could use as a reference point, rather than starting from scratch, since in his opinion Brazil did not have time to waste.

V. Conclusion

As shown through this article, one of the most striking aspects of the Brazilian economy is high degree of income concentration. Regardless of the changes the economy has gone through in the two decades, going from the country’s re-democratization, trade liberalization, hyperinflation, several currency changes, and lastly, the macroeconomic stabilization in the mid-1990s, Brazil still presents one of the worst models of income distribution around the globe. The problem is certainly extremely complex, and linked to numerous socio-economic factors, which makes it a predominantly complicated analytical issue.

The effects of the programs implemented during the government of ex President Lula da Silva, aimed at improving the living conditions of the poor in Brazil can be considered positive, as poverty rates have dropped significantly and access to services such as health and education have grown over the years.

Part of the success of the social programs is due to the continuity that Lula da Silva gave to support strategies initiated by his predecessor Fernando Henrique Cardoso. In the same vein, the tactics taken by the government, which involve assistance in terms of health and education (the
Zero Hunger program), are important when evaluating the real impact of programs on the quality of life. The high levels of popularity enjoyed by Lula were the result of the effectiveness that those approaches had.

Unfortunately, the problem of urban poverty remains to be a difficult issue for Brazilian politics and the government’s inability to access some of the favelas makes the problem even more difficult. Although the number of poor people in major Brazilian cities has started to decline, due to the high rates of violence in the favelas, the government continues to resort to controversial measures (such as the BOPE) to exercise greater control over this population.

Finally, as Brazil will host the 2014 Soccer World Cup and Rio de Janeiro the 2016 Olympic Games, the actions taken by the Brazilian government will be in the spotlight of the international community. It will be interesting to see how President Dilma Rousseff is going to provide continuity to Lula’s efforts to provide economic growth with prosperity for all.

**References**


