

Pro-Poor Growth in Brazil: Where does the Country Stand?

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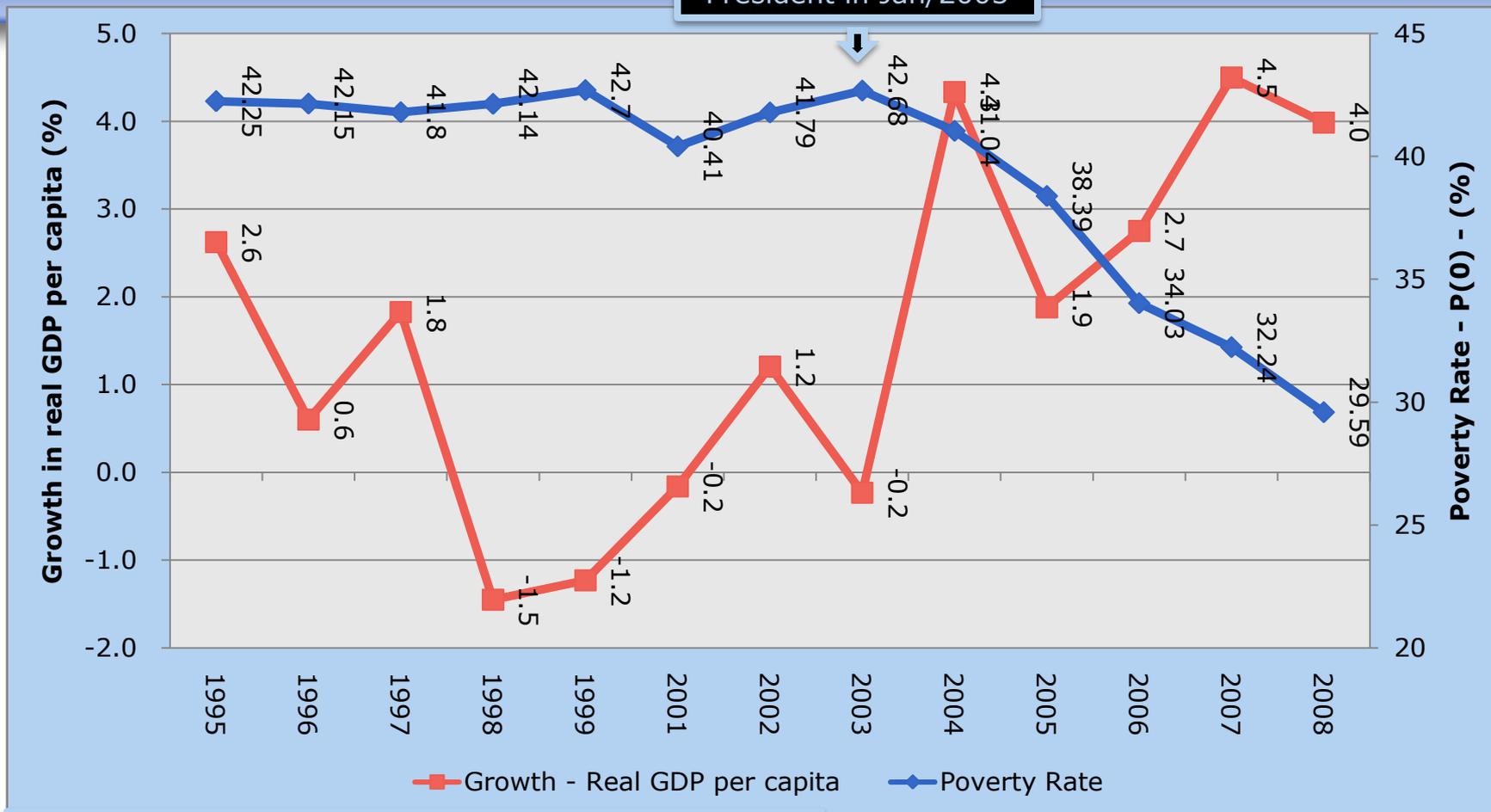
Outline

- ☒ **Poverty Trends in Brazil**
- ☒ **Brazil's poverty reduction engine**
- ☒ **Education and Poverty**
- ☒ **Institutions and Poverty**

A National Perspective – Brazil

Poverty reduction and Economic Growth

Lula is inaugurated as President in Jan/2003

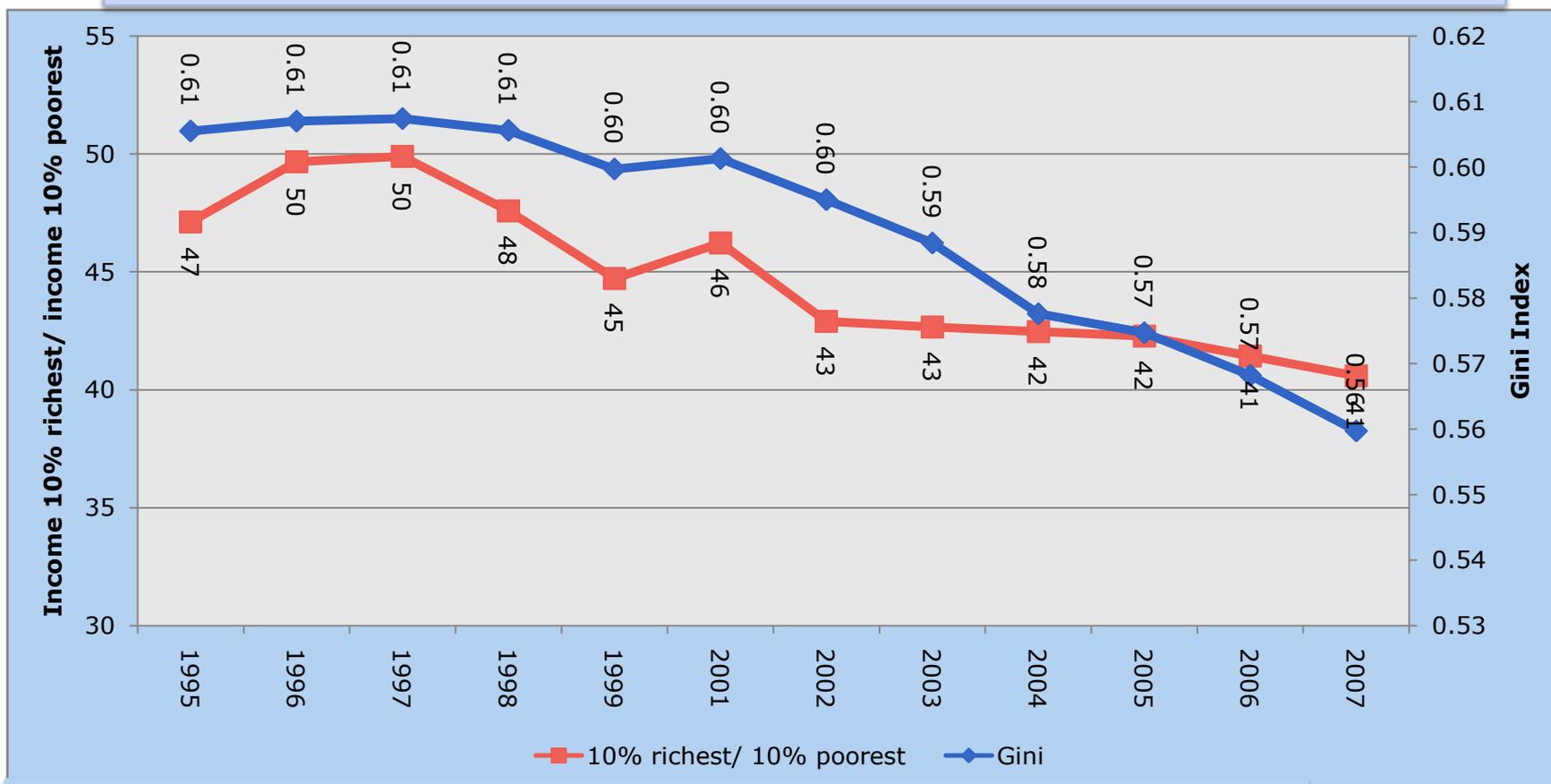


Source: Author's compilation using PNAD and BCB data

0.66 correlation between growth and poverty rates

... Income Inequality is also declining in Brazil

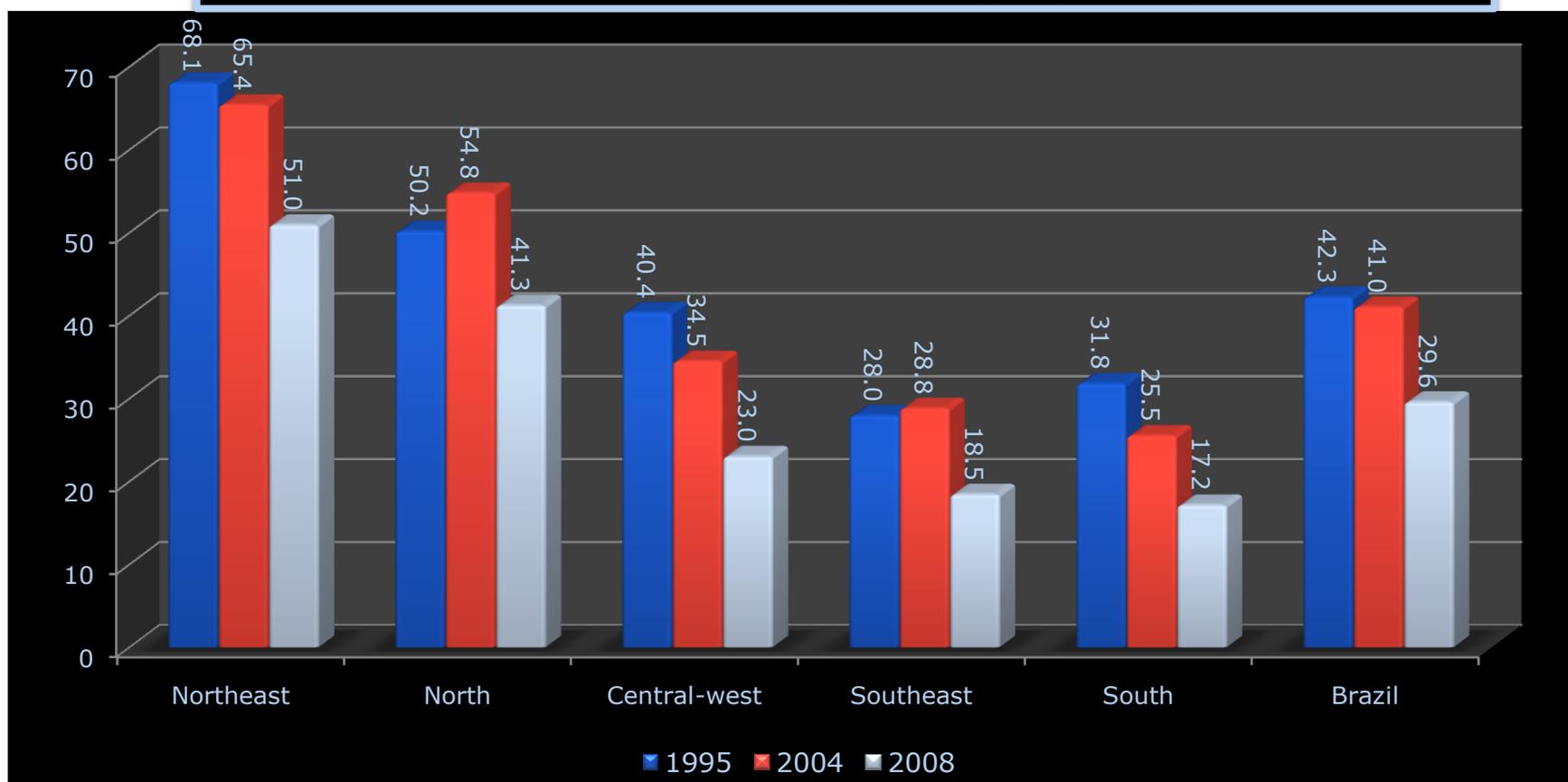
Income Inequality, Brazil, 1995-2007



Source: Author's compilation using data from IBGE Manso, Ataliba and Franca (2009)

Significant differences in Poverty Rates across regions in Brazil

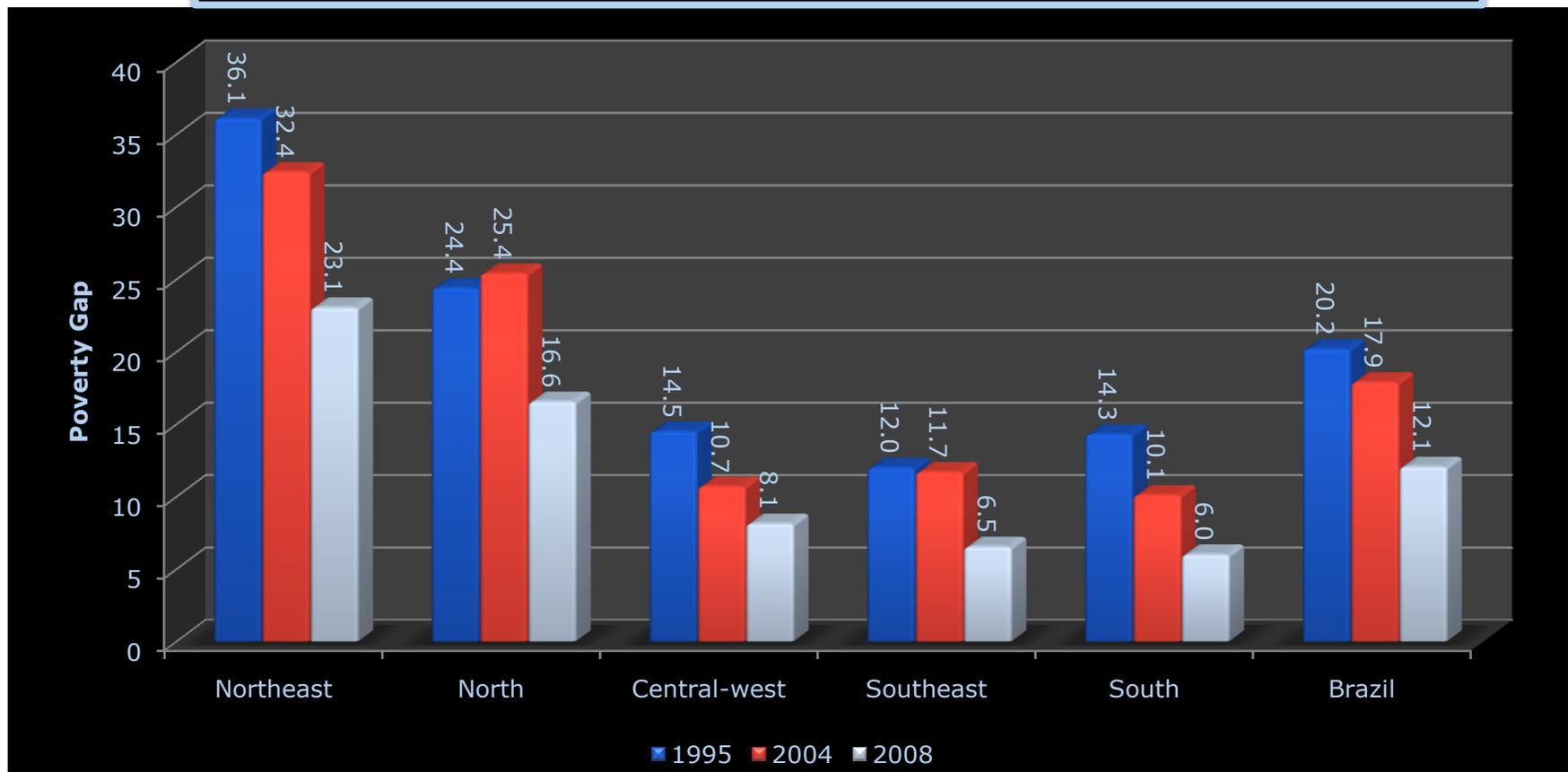
Headcount Poverty Rates – P(0), by Region, Brazil, 1995-2008



Source: Author's compilation using data from PNAD and Manso, Ataliba and Tebaldi (2006)

All metrics indicates the same pattern: Poverty Incidence decreased significantly across regions in Brazil

Poverty Gap – P(1), by Region, Brazil, 1995-2008



Source: Author's compilation using data from PNAD and Manso, Ataliba and Tebaldi (2006)

Is economic growth or inequality-decreasing policies the engine of poverty reduction in Brazil?

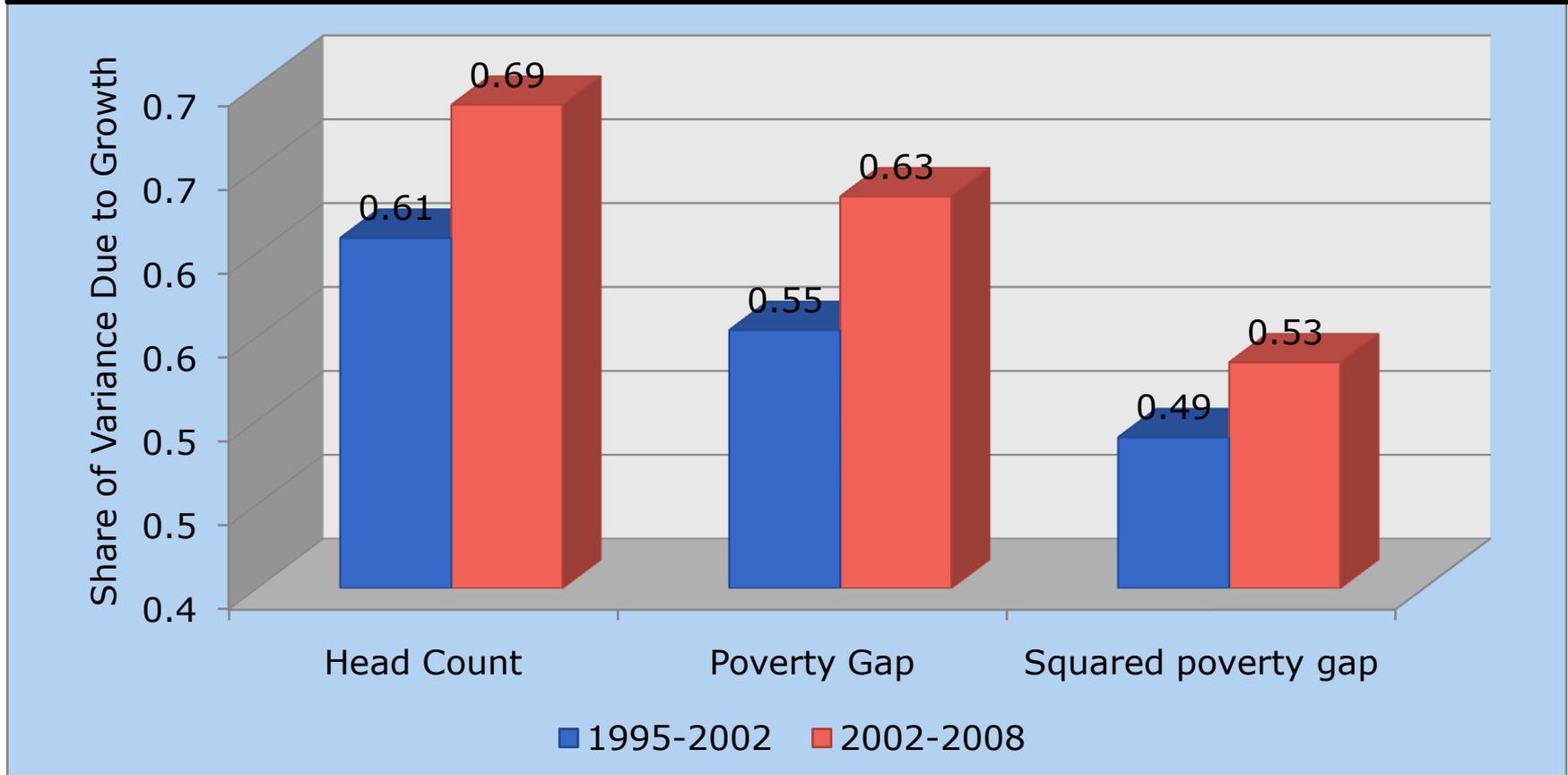
☒ Ravallion and Chen (2003) Decomposition

$$\Delta P_{t,i} = \gamma_{t,i} + \delta_{t,i}$$

- ☐ ΔP denotes change in a particular measure of poverty,
- ☐ γ denotes the mean income growth component
- ☐ δ denotes the income distribution component
- ☐ t and i index time and economic area, respectively.

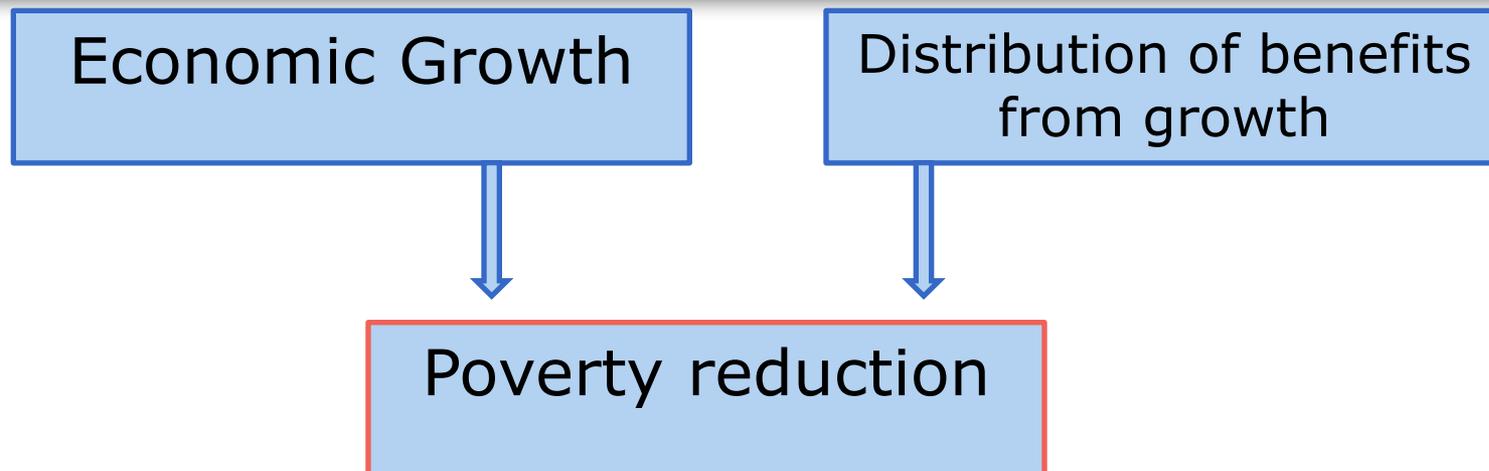
Recent Growth in Brazil is relatively “more pro-poor”

The Sources of Pro-poor Growth: Share of variance due to growth, Brazil – 1995-2008



Source: Tebaldi, Manso, and Ataliba (2009 – working Paper) - PNAD data

Key question: how to spur growth and enhance the benefits from growth to the poor?



Educational Inequality as a source of income inequality

- ☒ Bourguignon and Ferreira (2007) show that in Brazil “inequality of opportunity” caused by person’s family-related background, including **parents educational attainment**, has a significant impact on income inequality;
 - From 10 to 37 percent of income inequality
 - Education is “the most promising policy for reducing” income inequality;
- ☒ Educational inequality determines wage inequality (Menezes-Filho, 2001; Santos, 2005)
 - Improvements in education accounted for about 40% of the reduction in wage inequality between 2001-2005 (Barros, Franco, and Mendonça, 2007);

Educational Inequality as a source of income inequality and poverty

Average family Income (per capita), Brazil, 2008 (R\$)

	0-8 Years of Schooling	9-12 Years of Schooling	>=13 years of schooling
North	R\$ 293	R\$ 481	R\$ 1,137
Northeast	R\$ 242	R\$ 434	R\$ 1,428
Southeast	R\$ 472	R\$ 711	R\$ 1,843
South	R\$ 497	R\$ 737	R\$ 1,696
Central-west	R\$ 460	R\$ 713	R\$ 2,113
<u>Brazil</u>	R\$ 383	R\$ 632	R\$ 1,729
Educational Attainment of the poor	80%	19%	1%

Source: Author's compilation using data from PNAD

Education as a source of Economic Growth

☒ **A large literature using Brazilian data shows that education is a key factor in determining the country's pattern of long-run economic growth;**

- **Economic growth and productivity could be significantly augmented by improving the “40% poorest workers” access to education and programs to improve their skills (Dias and Dias, 2007) ;**
- **Significant returns to education in Brazil (Sachsida et al, 2004; Resende and Wyllie, 2005)**
 - Average return range from 10 % – 15 % per additional year of education
 - Significant returns to individuals with low levels of educational attainment (poor)

...but focusing only on Education might create another **failed Panacea for growth promotion and poverty alleviation**

☒ Poor institutional quality (or governance) influences poverty via market inefficiencies, misallocation of resources, and “broke” incentives.

- Institutions have a vital role in affecting poverty because institutions mediate the impacts of economic transformations (e.g. Globalization, liberalization) and the distribution of economic outcomes (Sindzingre, 2005) .**
- Good governance is a pre-requisite for poverty alleviation (Tebaldi and Mohan, 2009; Grindle, 2004).**
- “In an economy with extensive government intervention, the activity with the highest returns to skills might be lobbying the government for favors.”(Easterly, 2002)**

Institutions and Poverty

- ⊞ **Inequality in the allotment of political power to the educated might create inequity in income distribution, resulting in the uneducated being trapped in poverty (Chong and Calderon, 2000).**
- ⊞ **Corruption, ineffective governments, and political instability will hurt the poor via:**
 - **Lower income levels due to market inefficiencies.**
 - **increase poverty incidence via increased income inequality.**
 - **Reduced incentives for human and physical capital accumulation**

Poor institutions(or incentives) may discourage people from acquiring the education that would help them to get out of poverty.

Reasons to not Attend School - Individuals 15 - 17 years, Brazil-2004

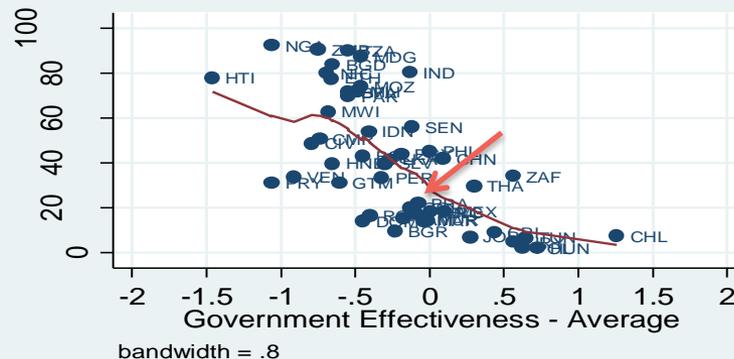
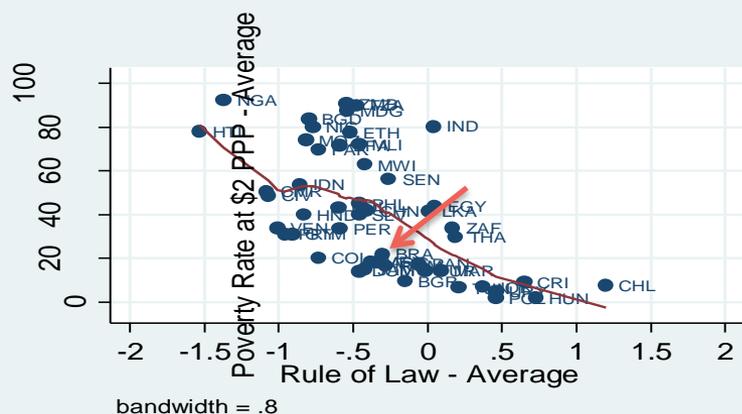
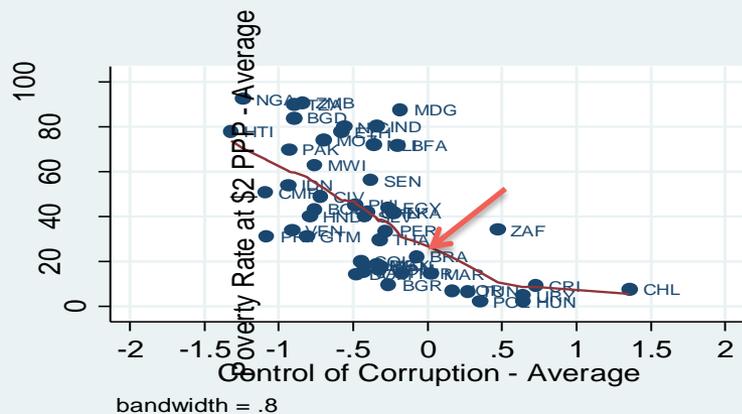
<i>Reasons</i>	<i>Brazil</i>	<i>Northeast</i>	<i>North</i>	<i>Southeast</i>	<i>South</i>	<i>Central-west</i>
Working or searching for a job	20.1	18	15	21.3	26.7	20
There was no school nearby home or no transportation from home to school	5.3	5.3	6.7	4.4	6.1	5.8
Could afford staying in school	2.3	1.8	1.5	2.9	3.2	1.5
Obtained the desired level of education or dropped out due to own or parents' choice ("Por vontade própria ou dos pais ou responsáveis ou concluiu a série ou curso desejado")	45.6	47.8	43.9	46.0	41.1	43.8
Other Reasons	26.6	27.3	31.8	25.1	22.9	28.9

Fonte: PNAD, 2004

"In a stagnant economy **without incentives** to invest in the future, students will goof off in the classroom or sometimes not show up at all, parents will often pull their children away to work on the farm, and teachers will while the time away as overqualified babysitters" (Easterly, 2002:82)

Poverty and Quality of Institutions

Cross-country evidence



Source: Author's compilation using data from the World Development Indicators.

Institutions and Poverty: Rough Estimates

- ☒ Holding mean income constant, improvements in the quality of institutions in Brazil of about half-standard deviation from the cross-country mean would be associated with a reduction of about 5 points in the country's poverty rate (Tebaldi and Mohan, 2009);**
- ☒ Improvements in institutions would also boost innovation, increase mean income and reduce poverty;**
 - if Brazil had the same market regulatory system as that of the U.S. (the difference in the regulatory quality index between these two countries is about 1.2 points), Brazilian residents would have produced about 2.5 times more patents than what they actually produced between 1970 and 2003. Tebaldi and Elmslie (2009);**
 - Income and Institutions: Hall and Jones (1999); Acemoglu et al (2001);**

Institutions and Poverty

- ☒ **Programs that target the poor will have limited and short-term effects on poverty if the fundamental poverty-causing factor --quality of institutions -- were not addressed as part of the strategy to eradicate poverty.**
- ☒ **Policies aimed at reducing poverty should focus on improving institutions and boost the incentives for human capital accumulation as a necessary condition for economic development and poverty eradication.**

The Path Ahead in Brazil

☒ Expand the investments and projects aimed at reducing Educational Inequality

- Provide access to high-quality basic education;
- Expand the use of technology to deliver education, particularly in remote and underprivileged areas.

☒ Reform Institutions

- Implement micro and macro strategies that might increase the incentives for human capital accumulation
 - Control of corruption and nepotism
 - Enhance meritocracy in the public sector, particularly in the educational sector
 - Make the Brazilian job-market more flexible
- **Focus on improving overall Governance**
 - Rule of Law, Voice and accountability, government effectiveness

Questions?

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