Should regional inequality be a policy issue?

Whenever the inequality issue comes up, the regional issue tags along. The perception is that a national approach to income distribution is not enough; there must also be programs that attack differences in wealth between Brazil's regions. The traditional contrast between the south and southeast, on the one hand, and the north and northeast, on the other, is seen almost as a cartographic symbol of extreme unfairness in Brazilian society.

However, regional inequality is not really a major national problem. It is certainly much less important than the unequal distribution of income among families across the country regardless of where they live.

Further muddying the debate is that in discussions about regional inequality, two different issues are often confused. The first occurs when a geographically small area produces a large share of national GDP. Here income inequality is associated with inequality in the geographical distribution of production.

The spatial concentration of production, however, clearly does not represent a problem for the government to address. Considering the variations in the characteristics of productive activities, production will never be equally distributed throughout the country. A region with a comparative advantage in agricultural production will always tend to have a lower share in GDP than a highly industrialized area.

This is the case, for example, in the American Midwest. A famously rich region in terms of income per capita, the granary of the world has a relatively modest share of U.S. GDP. The same can be said with certainty about the overachieving vastness of Brazil's Midwest.



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What's not the problem

The second type of regional inequality is characterized by substantial differences in per capita income between different regions of the country. This, however, is not in fact a regional problem.

Per capita income is lower in some areas because the people, not the geographic space

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itself, are less productive. Low productivity is an attribute of the inhabitants, not the geographical area. In other words, this kind of regional inequality is, in essence, simply one facet of social inequality.

Keep in mind that the Brazilian labor market is well integrated. Workers with the same skills are paid roughly the same wage anywhere in the country. The high degree of mobility of labor in Brazil ensures the integration of the labor market and exercises a strong effect in reducing income inequality between regions.

The per capita income differences that persist after leveling off the impact of an integrated labor market are associated with patterns of regional population settlement that are not easily addressed by public policy. In regions where per capita income is low, the population has characteristics associated with low labor productivity. These regions have a low cost of living, which attracts people with lower incomes.

Thus policies that address social inequalities throughout the country will automatically address regional income differences. The best policy to address regional income disparities is a good policy of income redistribution at the national level. And indeed, poor regions, because they are inhabited mostly by people with low productivity or low income, benefit the most from social programs such as rural pensions and family grants.

Programs that are specifically regional always run the risk of taxing the poor. These initiatives are funded by taxes paid disproportionately by the poor who live in rich regions, and benefits are snapped up by the economic elites living in poor regions — always a risk, given the lobbying power of the oligarchs in less-developed regions of Brazil.

Given that the main source of low productivity and income per capita differences is insufficient schooling, clearly the best policy will be to reduce regional differences in the quality of educational systems.

Summing up, the high mobility of labor in Brazil suggests that social inequality between individuals is much more important than income inequality between regions. Brazilian governments have done a good job of improving national income distribution in the last decade. It is best that the government continue to focus on that task and not listen to regional interests.

Given that the main source of low productivity and per capita income differences is insufficient schooling, then, clearly the best policy will be to use national policies to reduce regional differences in the quality of educational systems.