INCOME DISTRIBUTION

Income distribution in the balance



Thais Thimoteo

THE MINIMUM WAGE POLICY, along with economic growth and expansion of education, has been a major factor in improving incomes in Brazil in recent years. A study by the Institute of Applied Economic Research (IPEA) based on the 2012 National Household Survey (PNAD) found that per capita household income increased by 8.9% above inflation in 2012. The highest growth occurred among the poorest 10%, whose income increased by 14% compared to 10% for the richest group. The share of population below the official poverty line (R$70 per capita in July 2011) fell from 4.2% in 2011 to 3.6% in 2012, helping 6.5 million Brazilians.

"Brazil today is the international benchmark for reducing poverty and income inequality, and research proves the importance of raising the minimum wage to the recent downward trend in income inequality and poverty," stresses Márcio Pochmann, professor, University of Campinas (Unicamp). However, João Saboia, professor, Federal University of Rio de Janeiro (UFRJ), points out that the country still has a long way to go, because income distribution is still high by international standards (0.5 on a scale of zero to 1, where 1 means maximum income inequality). "The minimum wage policy has reduced inequality, so we have to weigh this positive aspect of the policy when we consider changing it," he says.

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Some economists argue that raising the minimum wage is not the most effective way to reduce income inequality and poverty. The Family Grant, the flagship social program of the Lula and Rousseff administrations, is not pegged to the minimum wage as other welfare benefits are; similar policies meet the needs of the poor and weigh less on the government budget. Fernando de Holanda Barbosa Filho, researcher, Brazilian Institute of Economics (IBRE), emphasizes that the fiscal cost of raising the minimum wage is very high. An increase of 10% in the minimum wage costs approximately R$3.1 billion at 2012 prices, of which only R$100 million would reach the poorest since less than 15% of them earn the minimum wage.

The difference between welfare benefits pegged to the minimum wage and the Family Grant is enormous. According to the Ministry of Social Development in 2013, 4.1 million individuals received welfare benefits that cost the treasury R$33 billion, compared to 14 million

3.6%

Was how much household income grew a year in 2002-2012 compared to 2.5% a year in the previous 10 years.

5.3%

Was the annual increase in the minimum wage in 2002-2012 compared to a fall of 0.22% a year in 1992-2002.

US$96

Was the per capita income of the 40% poorest Brazilians in 2012, compared to US$2,063 per capita for the 5% richest.

Source: Institute of Applied Economic Research (IPEA).

households that received the Family Grant at a cost of just R$25 billion. "For the worker, the most important thing in a world is the salary increase. But it is much more expensive to reduce inequality by increasing the minimum wage than by paying the Family Grant. When more is paid to a worker, the government has to spend more on retirees, unemployment insurance, and all the other welfare benefits that are pegged to the minimum wage," Barbosa Filho notes.

Naércio Menezes, coordinator of the Center for Public Policy of the Institute of Education and Research, is also concerned about the fiscal impact of the minimum wage policy, especially on social security pensions, although he acknowledges the positive effect of the policy in reducing income inequality. But, he says, "The situation of social security is becoming increasingly complicated due to the rapid aging of the population." Nevertheless, he believes, "We can continue raising the minimum wage, [though] maybe not in the same magnitude as in recent years." Menezes argues that the retirement rules need to be changed to somewhat offset the cost of raising the minimum wage. Unicamp's Pochmann adds, "It is essential to raise the minimum wage until it reaches the same value as when it was created in 1940."

As far as reducing inequality is concerned, Saboia and Menezes do not see a clear relationship between the minimum wage and the Family Grant. The two policies have different goals. The Family Grant program is geared to mitigating poverty; the benefit is lower than the minimum wage but reaches the poorest directly. On the other hand, as a benchmark for the labor market and welfare benefits, the minimum wage primarily affects workers and retirees and plays an important role in reducing income inequality. Saboia concludes, "It does not make any sense to say that if you put R$1 in the hands of the poor, the effect is greater than increasing the minimum wage by R$1 because the money will be more widespread in the economy. They are two very different things."

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