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THE TOP 1% OF INCOME DISTRIBUTION AND ITS RELEVANCE FOR THE DISCUSSION OF ECONOMIC INEQUALITY IN BRAZIL

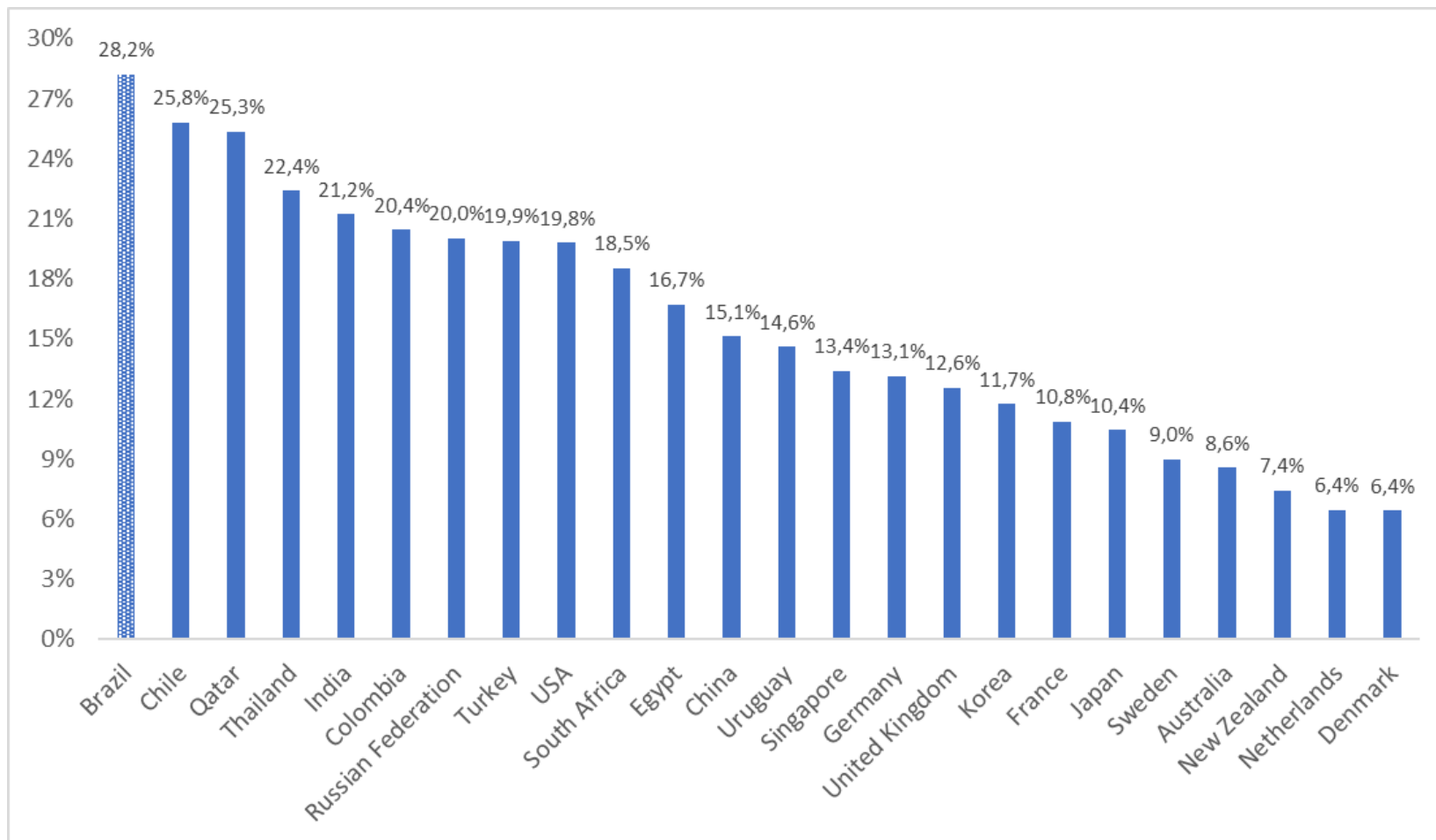
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- The objective of this paper is to evaluate the recent process of evolution of the Brazilian distribution of income, highlighting, within the possibilities allowed by data availability, aspects related to the performance of the top 1%;
- International comparison reveals that Brazil is one of the most unequal countries in the world. That's why the study of Brazilian inequality arouses so much interest. Brazilian data show a reduction in income inequality between 2003 and 2014, but reveals that, since 2015, different income and labor market indicators show a reversal of the good results that had been obtained until then.
- This presentation searches to highlight evidences of the impact of the political turmoil and of the subsequent labor relations "reform" on the main labor market indicators.

Graph 1: Share of the top 1% - selected countries – 2010



Source: World Inequality Database (<https://wid.world/>).

Graph 1 reveals the peculiarity of Brazil, showing the extent of Brazilian inequality, internationally compared.

This situation justifies the study of Brazilian inequality and requires that the composition of personal and family incomes be interpreted comprehensively.

RECENT ECONOMIC CICLE, LABOR MARKET AND IMPACT ON INEQUALITY INDICATORS

- In the ten years between 1995-2004, the country recorded low economic growth (2.4% p. y.), a result that reflected the intensification of restrictive macroeconomic options taken due to the external vulnerability of the Brazilian economy in the face of crises in the so-called “emerging” markets.
- This situation severely impacted the Brazilian labour market, which registered an increase in unemployment, informality and wages reductions. Although the country registered positive GDP growth in 2000 (+4.4%), internal problems, such as the energy crisis of the following year and the risk of uncontrolled inflation in 2002 avoided that there was a continuation of economic growth, which also affected 2003’s results.
- The resumption of growth and the consequent recovery of employment and remuneration in national income only occurred in 2004 and then after.

RECENT ECONOMIC CICLE, LABOR MARKET AND IMPACT ON INEQUALITY INDICATORS

- From 2004 to 2008, there was, for the first time in the Brazilian economy since 1980, the occurrence of five consecutive years of GDP increase above 3.0% per year. From 2004 onwards, there was also an increase in the level of employment, an increase in its formalization and substantial increases in labor remuneration (and labor share) until 2014.
- It should be noted that the value of the national minimum wage, a fundamental variable for determining wages received constant readjustments above inflation in the period. Another sign that reinforces this recovery of remuneration is the systematic gain by organized workers of salary increases above inflation, a fact that starts right after 2004.

RECENT ECONOMIC CICLE, LABOR MARKET AND IMPACT ON INEQUALITY INDICATORS

- Economic growth and the consequent quantitative and qualitative expansion of employment in Brazil, at least up to 2008, can be attributed to the favorable conditions coming from both the world economy and the domestic economy.
- At first, there was a strong expansion of Brazilian exports, registered by the increase of its share in GDP. However, from the last quarter of 2008, and during 2009 (global crisis), the external scenario contributed negatively to the growth of the country. Thus, domestic consumption prevailed in support of the relatively favorable situation of the Brazilian labor market. In this context, the effects of the minimum wage recovery policy, as well as the measures of credit expansion and the increase in the coverage of social income transfer programs that have boosted household consumption played a fundamental role.

RECENT ECONOMIC CICLE, LABOR MARKET AND IMPACT ON INEQUALITY INDICATORS

- Brazilian Constitution determines that the minimum wage serves as a reference for the floor of all the social programs revenues, including the Social Security (Public retirement and Public pensions as we will see in the next tables). This also explains the increase of compensation in the GDP (labor share) until 2014/5.
- In the final two years, there was a strong contraction in GDP, which was reflected in consecutive declines in 2015 (-3.5%) and 2016 (-3.3%). Such a recession also hit the labor market, reducing the employed population, formalization and average wages. However, in 2015, the loss in workers' income was lower than for the total economy, and, therefore, there was still an increase in the weight of wages. As early as 2016, the continuation of the deterioration of the economy and the labor market impacted in a way that stabilized the growth of the participation of the remunerations.

INCOME DISTRIBUTION ACCORDING TO DIFFERENT SOURCES

Gross Personal income as defined here is composed of several forms and sources of income, presenting the following structure: (a) Labor income: work income refers to the gross salary or wage of all the jobs of the person in the reference week of the household survey. For employees and domestic servants, it is the gross monthly remuneration to which they are entitled, working in the main work the full month, or, when the income is variable, monthly average remuneration relative to the month of reference of the survey. The values do not include the Brazilian 13th salary and also exclude resulting revenues from the participation of employees in profit and enterprise results (anyhow, a not frequent situation in Brazilian Labor reality). Other kinds of benefits, like transport, food, or meal allowances payed by the employers are not included as well. For employers or self-employed people, the income refers to the most frequent monthly revenue or, in the case of variable revenue, it is considered the income at the reference month of the survey; (b) Public Retirement: monthly income from public sources, for either retired private employees or retired public employees (at federal, state or local sphere); (c) Other Retirement: monthly income from private funds (especially pensions funds), complementary or not of public retirement source; (d) Public Pension: monthly income from public sources, payed to widows or widowers of workers from private or public sector activities; includes also incomes to retired Army Forces people (or their widows or widowers) and also benefits from FUNRURAL (Assistance Fund for the rural workers); (e) Other Pensions: monthly income from private sources payed to widow or widowers of workers from private sector activities or either public sector enterprises; (f) Donations: monthly income corresponding to donations received from any source/purpose or to monthly allowances from non-residents of the family unit; (g) Rent: monthly income corresponding to the amount received by the lease or sublet of real estate, furniture, machinery, equipment, animals, etc.; (h) Yield, interests and social transfers: it is a very aggregated variable of the PNAD, including revenues from financial assets and also many kinds of revenues resulting from social transfers, highlighting Bolsa Familia (a kind of Food Stamp Program, but, in Brazilian case, connected to family commitments with some educational targets) and LOAS (a kind of program of social transfers for disabled or mentally diseased people). What is defined in the table of this paper as “Total Income” refers to the sum of all the flows of personal gross incomes mentioned above (not every people have more than one market or non-market income). The original denomination (in Portuguese) of the structure of income was withdrawn from the glossary of PNAD Technical Notes, available in http://www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/glossario_PNAD.pdf. PNAD (Pesquisa Nacional por Amostra de Domicílios) is the Brazilian official household survey, conducted by IBGE (Instituto Brasileiro de Geografia e Estatística). In other words: PNAD is similar to the Current Population Survey (CPS) released by the Bureau of Labor Statistics (BLS) of the United States. The translation of all terms was made searching the similarity between the Brazilian and the American realities. 14

INCOME DISTRIBUTION BY DIFFERENT SOURCES

- Table 1 shows the evolution of average incomes for the Brazilian population as a whole by different sources of income for the period 2003-2014 and also for 2014-2015, when the Brazilian economy began to slow down.
- The information presented also shows the evolution of income inequality within each source of income, and also in the total gross income, both for the period of reduction of personal income inequality and for the year in which a reversal appears to begin (2015), when the average income begins to fall.

INCOME DISTRIBUTION BY DIFFERENT SOURCES

- The general movement shows a decrease in inequality of all sources of income, with special emphasis on labor income, which shows the greater participation in the set of incomes captured by the sample survey - around 75%. Also noteworthy is the strong reduction of inequality in the heading of public retirement and public pensions (both revenues from the Social Security system), where the Gini was already smaller since the beginning of the series.
- The lowest inequality in this source of income is due to both kinds of revenues payed by the public sector, which have upper and lower limits (official minimum wage) for the disbursement of benefits, the latter being destined for a large contingent of the population.

Table 1 - Personal income structure from all Brazilian population - 2003-2014/15

Sources of income	% Total income			Average income (R\$/month)			Variation (% p. y.)		Gini index		
	2003	2014	2015	2003	2014	2015	2003-14	2014-15	2003	2014	2015
Total Income	100	100	100	1.356	1.839	1.738	2,8	- 5,5	0,57	0,50	0,49
Labor Income	76,5	76,6	75,4	1.366	1.951	1.850	3,3	- 5,2	0,55	0,49	0,49
Public Retirement	14,4	14,3	15,7	1.163	1.461	1.428	2,1	- 2,3	0,48	0,38	0,38
Public Pension	4,2	4,0	4,1	929	1.230	1.209	2,6	- 1,7	0,43	0,33	0,32
Other Retirement	0,4	0,4	0,4	2.449	2.632	2.711	0,7	3,0	0,57	0,57	0,57
Other pensions	1,0	0,9	0,8	620	635	601	0,2	- 5,3	0,53	0,53	0,52
Rents	1,8	1,2	1,1	1.097	1.480	1.341	2,8	- 9,4	0,58	0,56	0,53
Donations	0,7	0,4	0,4	487	595	574	1,8	- 3,5	0,58	0,55	0,56
Interests/social transf.	1,1	2,3	2,1	173	330	312	6,0	- 5,3	0,73	0,51	0,49

Source: Processing from PNAD/IBGE.

THE SOURCES OF INCOME IN THE TOP 1%

- In Table 2, data are presented in the same way as in the previous table, but, in this case, taking into account only the top 1% income of the population. In the same way as in the previous table, the table 2 shows an increase of the average income by sources of income, also highlighting the labor income trajectory.
- Considering that, from 2003 to 2014, the country presented significant economic growth and consequent warming of the labor market, with significant reduction of unemployment (subject to be discussed in the following section), the improvement of wages also reached the top 1% of the distributive pyramid. In 2015, the loss of earnings also affects this group.

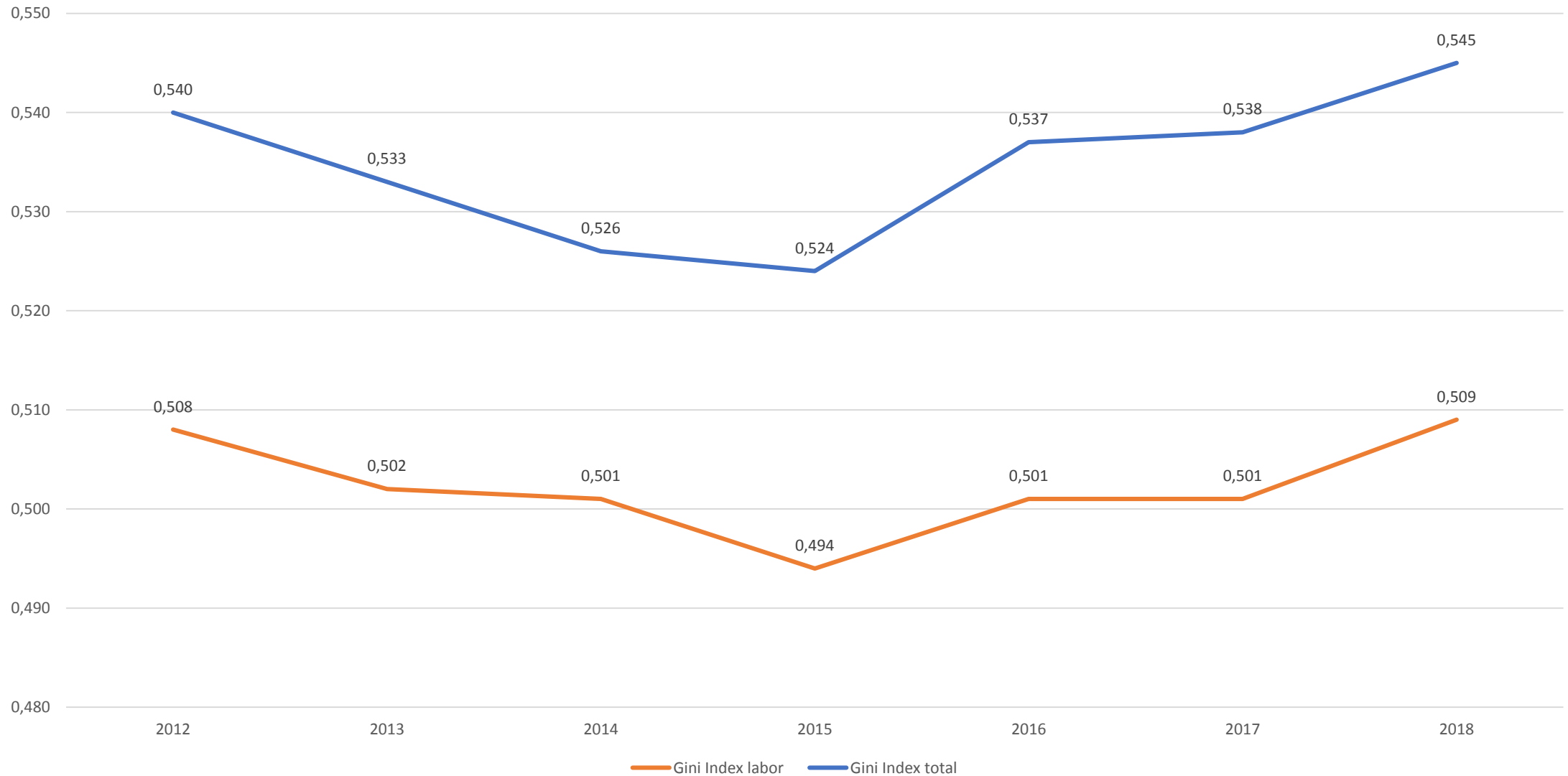
Table 2 - Personal income structure from Brazil Top 1% population- 2013-2014/15

Sources of income	% Total income			Average income (R\$/month)			Variation (% p. y.)			Gini index		
	2003	2014	2015	2003	2014	2015	2003-14	2014-15	2003	2014	2015	
Total Income	100	100	100	17.993	22.451	20.473	2,0	- 8,8	0,21	0,23	0,22	
Labor Income	76,8	82,9	82,1	16.085	20.950	19.328	2,4	- 7,7	0,26	0,26	0,26	
Public Retirement	13,9	9,8	11,9	8.192	8.899	9.326	0,8	4,8	0,45	0,47	0,43	
Public Pension	2,6	1,9	2,0	9.257	11.483	9.652	2,0	- 15,9	0,44	0,39	0,38	
Other Retirement	0,8	1,0	1,1	6.710	11.997	10.250	5,4	- 14,6	0,40	0,36	0,32	
Other pensions	0,4	0,5	0,4	4.868	7.013	6.501	3,4	- 7,3	0,43	0,47	0,44	
Rents	3,8	2,6	2,0	4.614	6.965	4.558	3,8	- 34,6	0,56	0,54	0,46	
Donations	0,1	-	0,1	3.133	3.296	11.156	0,5	238,4	0,33	0,23	0,33	
Interests/social tran	1,6	1,2	0,4	2.475	5.159	1.893	6,9	- 63,3	0,66	0,70	0,66	

INDICATORS OF THE RESUMPTION OF INEQUALITY GROWTH SINCE 2015

- The following results on Table 2 show the behavior of the Gini index for the usual work income, from 2012 to 2017, and for per capita household income in the years 2016 and 2017, both according to the new research implemented by IBGE Continuous PNAD.
- Graph 3, next.
- It can be noted that, as in the other database presented (the former annual PNAD), the inequality of labor income showed a downward trend until 2015, with stability and growth occurring in the following years. For the per capita household income, both years (2015 and 2016) show an increase in the Gini, confirming the reversal of the reduction of inequality in the country.

Graph 3 - Gini index for per capita household income distribution (2012/18) and for labor income (2016/18)



THE IMPACT OF POLITICAL CRISIS ON THE LABOR MARKET

- Table 3 presents the historical series of Continuous PNAD with three essential indicators of the labor market, related to unemployment, underutilization of the labor force and formalization of employed persons.
- Unemployment and underutilization rates, after reduction until 2014, grew strongly in the final years of the series. That is, since the advent of the political crisis, the contingent that entered the labor force or was occupied, to a large extent, became part of the unoccupied or underutilized population.

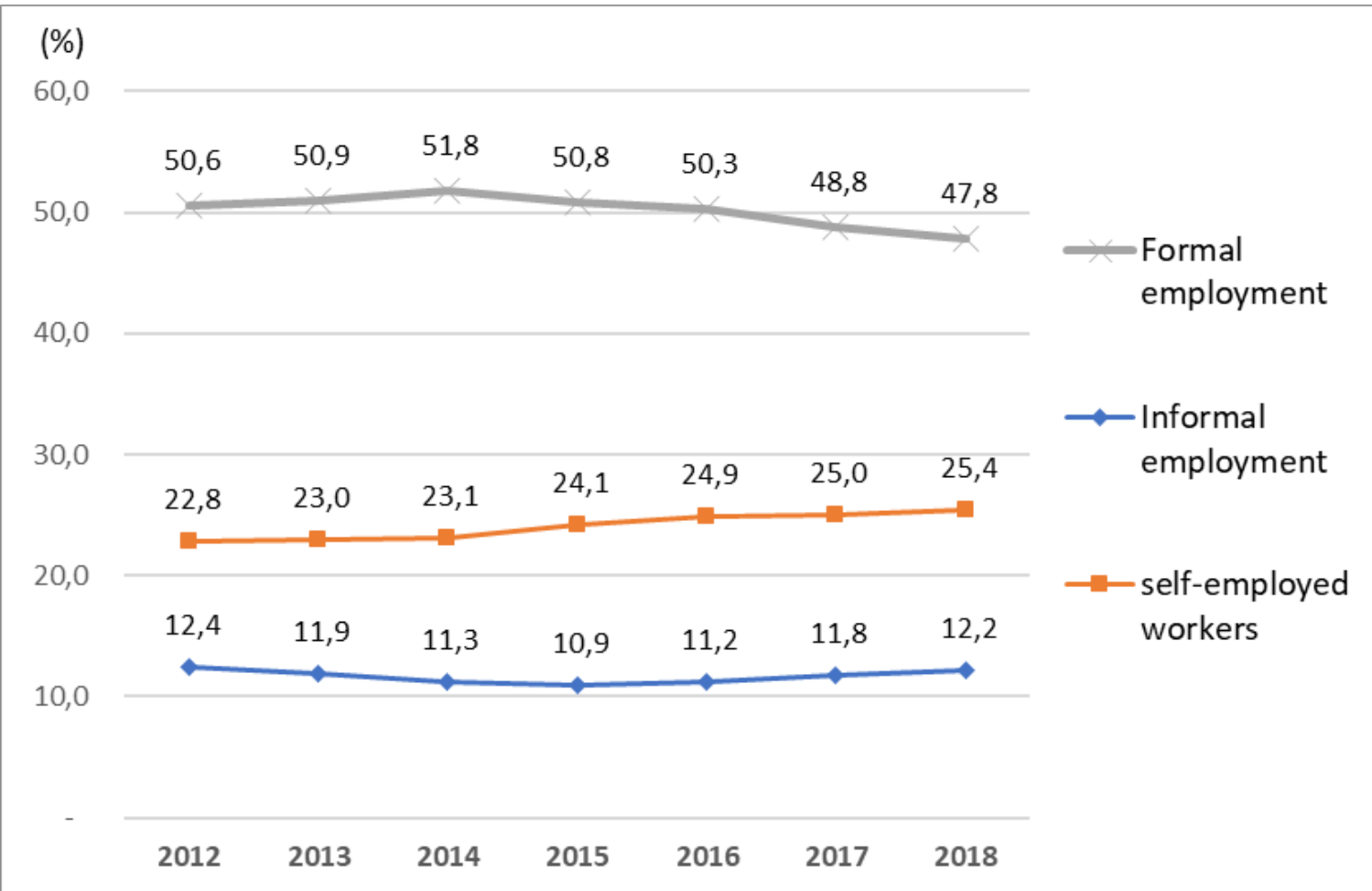
Table 3: Selected indicators for the labor market, 2012-2018

(%)

ano	Unemployment Rate	Underutilization Rate	Formal employed proportion
2012	7,4	18,4	50,6
2013	7,1	16,4	50,9
2014	6,8	15,1	51,8
2015	8,5	17,3	50,8
2016	11,5	20,9	50,3
2017	12,7	23,9	48,8
2018	12,3	24,4	47,8
2014-12	-0,5	-3,4	1,2
2018-12	4,9	6,0	-2,8
2018-14	5,4	9,3	-4,0

Source: Processing from Continuous PNAD/IBGE.

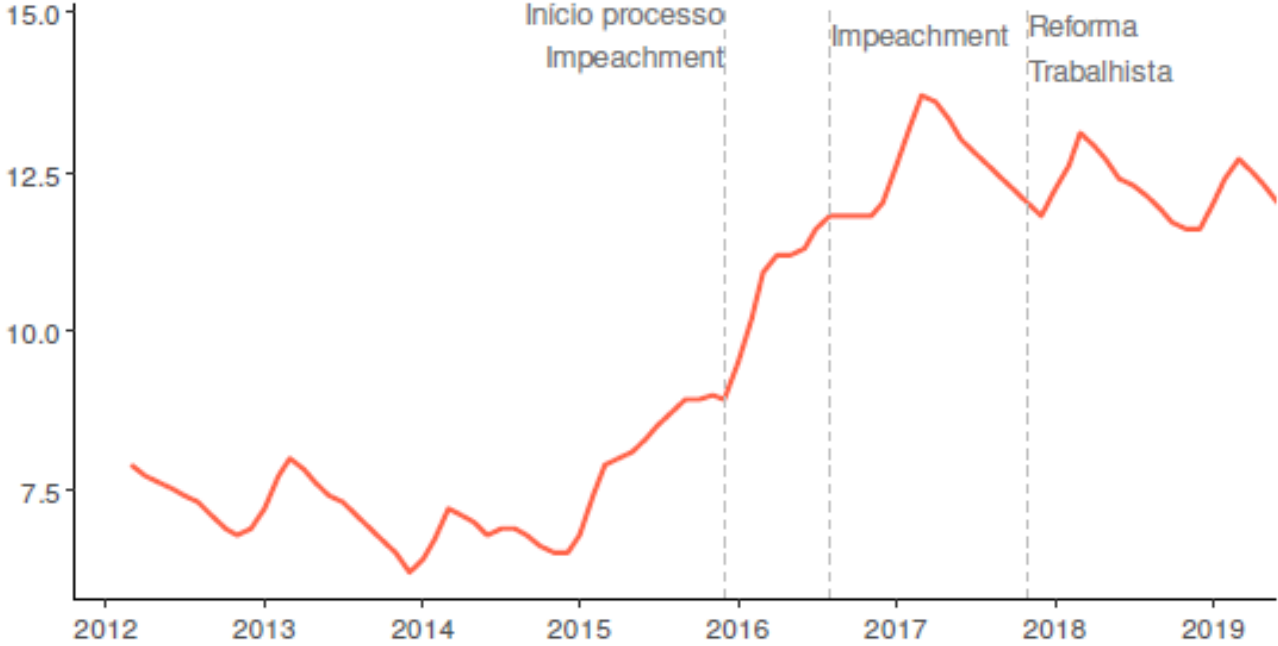
Graph 4: Participation of workers in selected status in employment categories – 2012/18



- I would like to highlight that the bulk of employment from 2015 on decreased. (rate of unemployment raising fast since then);
- And also the proportion of formal employment;
- So, in absolute terms, there has been a very fast decrease in the number of employees in the formal labor Market.

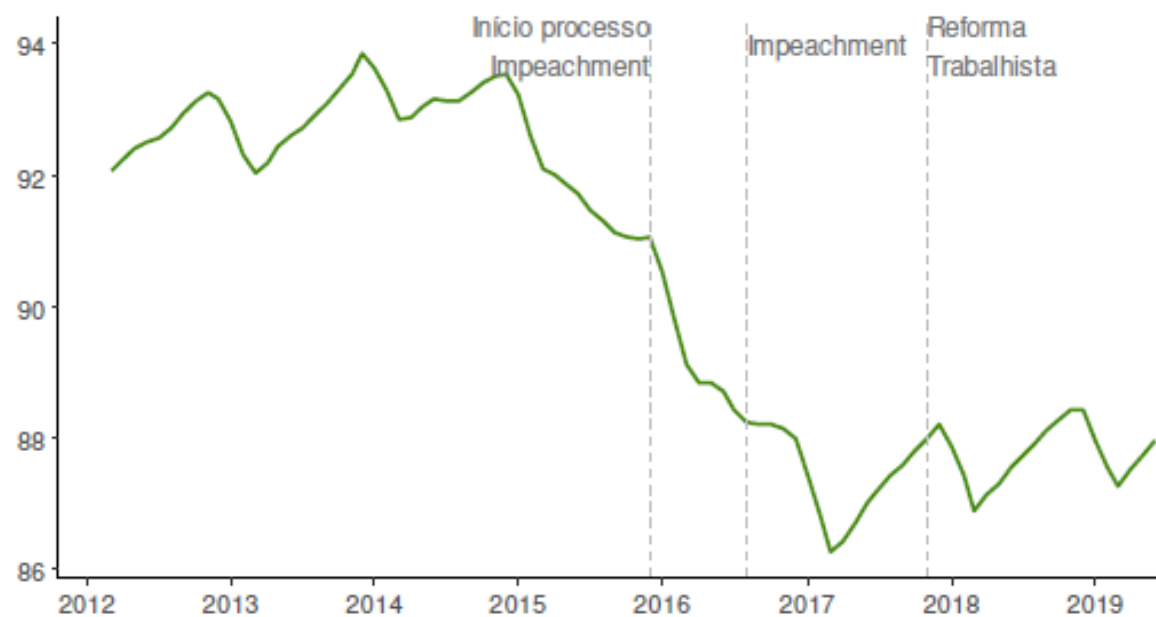
Source: Processing from Continuous PNAD/IBGE.

Gráfico 0X - Proporção de desocupados força de trabalho - taxa de desocupação



Fonte: SIDRA, IBGE.

Gráfico 0X - Proporção de ocupados na força de trabalho - taxa de ocupação



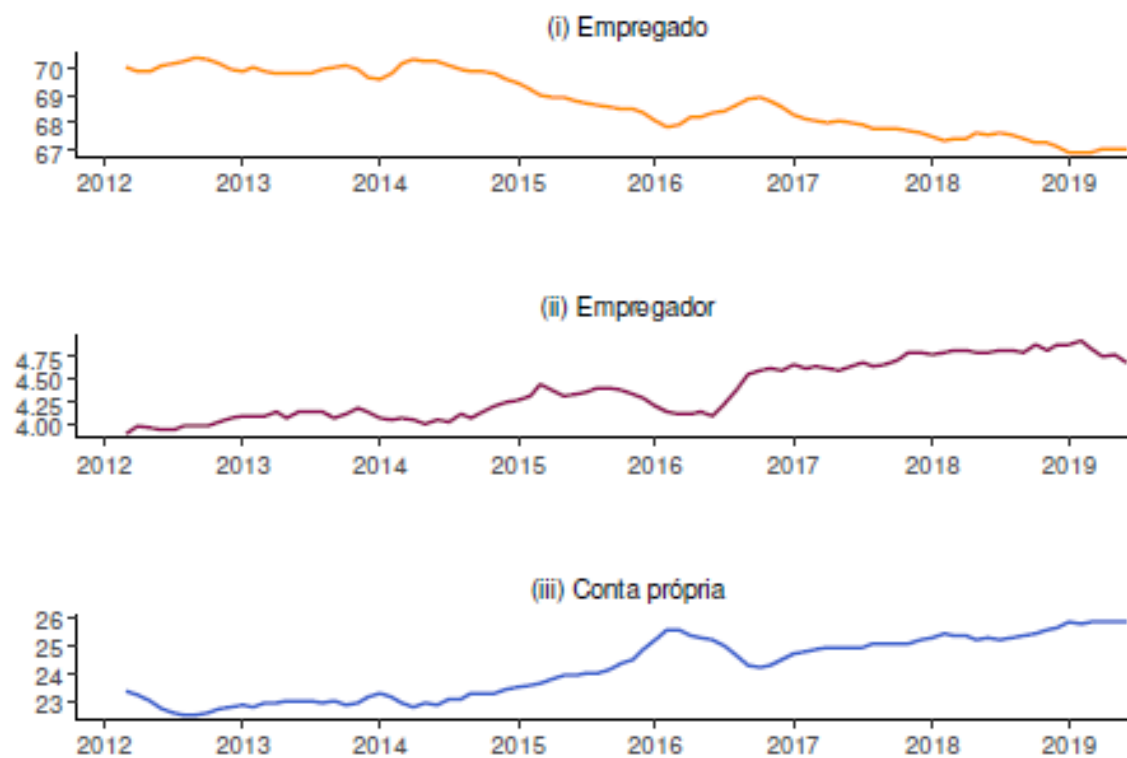
Fonte: SIDRA, IBGE.

Gráfico 0X - Proporção de subocupados força de trabalho - taxa de subocupação



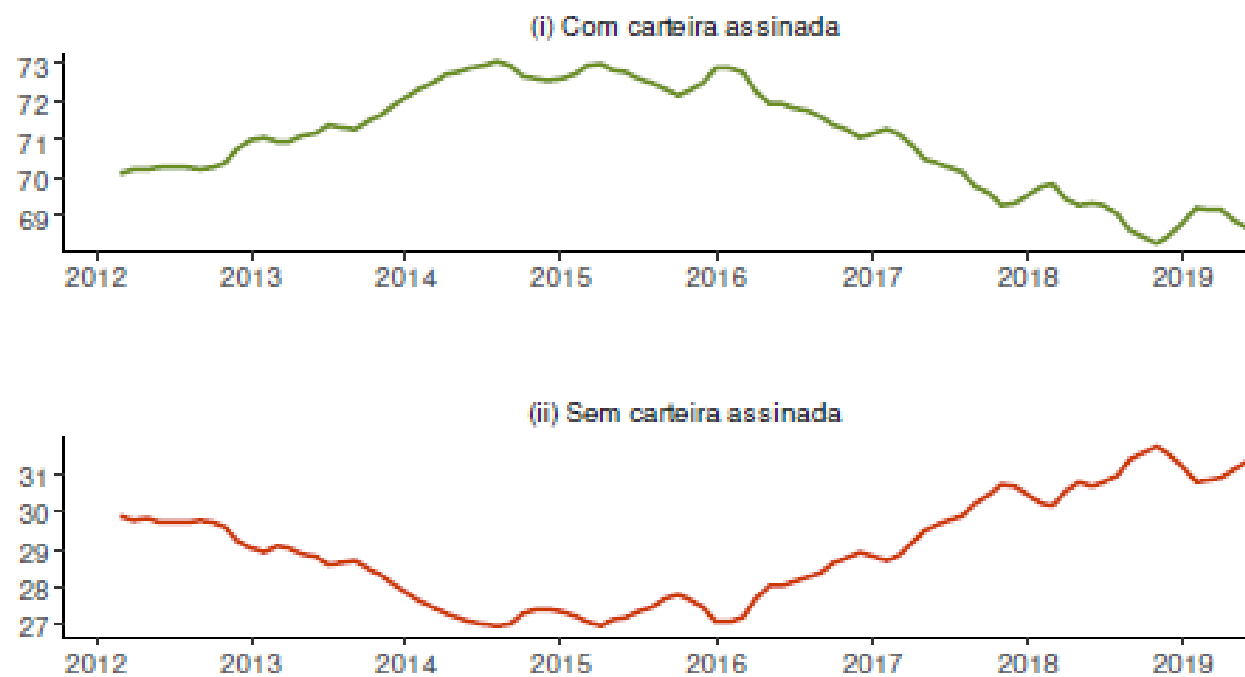
Fonte: SIDRA, IBGE.

Gráfico 0X - Ocupados - proporção de trabalhadores nas categorias empregados, empregadores e conta própria



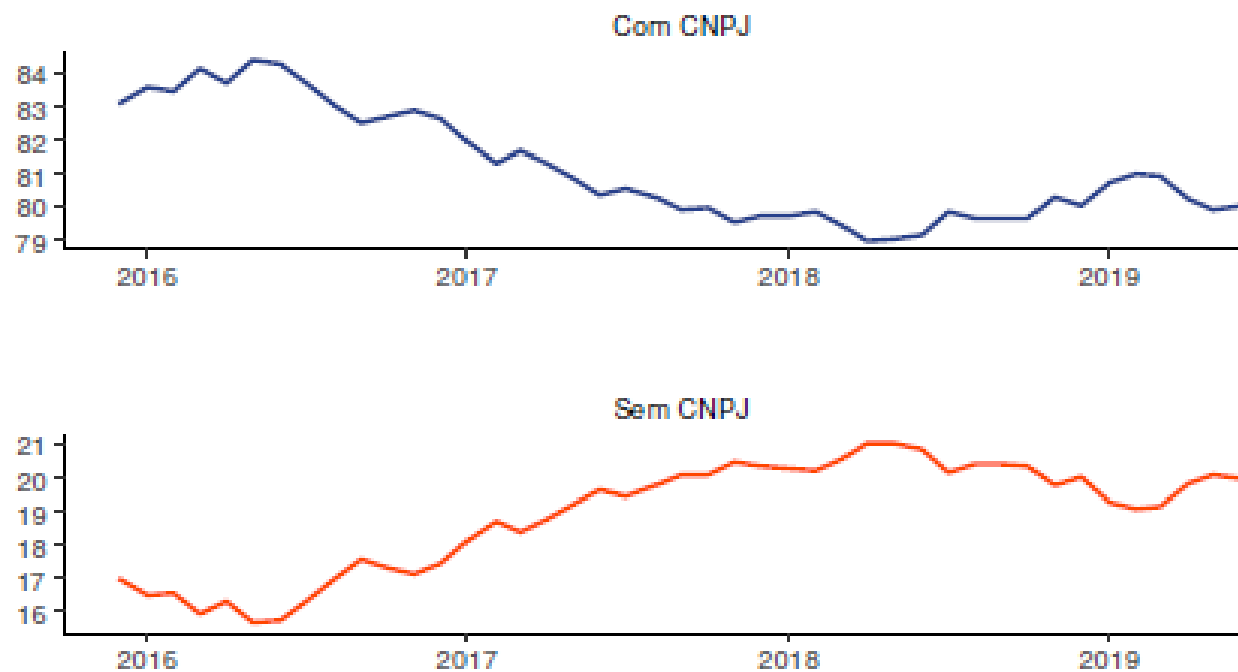
Fonte: SIDRA, IBGE.

Gráfico 0X - Empregados privados - proporção de trabalhadores com e sem carteira de trabalho



Fonte: SIDRA, IBGE.

Gráfico 0X - Empregadores - proporção de trabalhadores com e sem CNPJ



Fonte: SIDRA, IBGE.

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