INCOME INEQUALITY IN BRAZIL

The Brazilian economy has long been characterized by very high income inequality. Since 2001, however, the Gini index has decreased considerably, falling 4.6 percent between 2001 and 2005. This also coincides with a period of significant poverty reduction. Previous studies, using partial equilibrium analysis, have pointed to the importance of federal government transfer programs in this inequality reduction.

ASSESSING THE EFFICIENCY OF GOVERNMENT INTERVENTIONS

A team of Brazilian researchers evaluated the impact of the two most important government cash transfer programs, “Bolsa Família (BF)” and “Beneficio de Prestacao Continuada (BPC)”. The research team developed an integrated modeling approach – computable general equilibrium (CGE) and microsimulation models – to assess the efficiency of these programs in alleviating poverty and reducing inequality in Brazil.

KEY FINDINGS

- The simulation results confirm the importance of these programs (BF, BPC). From 2003 to 2005, approximately 20% of the decline in inequality can be attributed to the cash transfers provided through these programs.

- The effect on poverty alleviation, however, was not as strong. The transfers themselves generated positive impacts, but the tax reforms required to finance the expansion of the programs practically offset the former effect, particularly in the case of extreme poverty indicators.

- Finally, comparing the two programs on an efficiency basis, “Bolsa Família” has proven to better target its beneficiaries, concentrating the program’s benefits on poor families. The problem with the BPC program seems to lie in its administration, as the eligibility criteria were not sufficiently enforced.

CONCLUSIONS & RECOMMENDATIONS

In general, the results show that both cash transfer programs have attained their objectives of poverty and inequality reduction.

The CGE-microsimulation framework provides more realistic results and reveals the importance of the general equilibrium effects of such interventions.

In particular, the analysis shows that the tax reforms put into place to finance these programs play an important role in the ultimate poverty/inequality impacts. To improve the programs’ overall efficiency, the policy research agenda will need to address this issue and explore alternative strategies.

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