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What Happened to Brazil? The Political and Economic Turmoil and its Effects on the Distribution of Income, Especially on the Top 1%

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The rise of the top 1% in income distribution subject as one of the central concerns of the debate about personal income distribution has become increasingly relevant in the international literature. In the Brazilian case this subject has also been gaining attention. Brazilian authors have highlighted the importance of discussing the question of the top 1%, focusing in the evolution of their share in total and the composition of their income.

In the Brazilian case, the relevance of the top 1% study is even greater than in developed countries, given the recognized exceptionality of inequality in the country. Recent data published by IBGE showed that the stratum of the top 1% received an average income equivalent to R\$ 27,213 (approximately US\$7.2 thousand) per month in 2017, which is about 36 times higher than that received by the bottom half of the population. In addition, recent research by the authors of this proposal paper reveals that income composition at the top of the distributive pyramid is important to describe and elucidate the recent trend of this income stratum participation in the total economy income.

In this way, the aim of this proposed work is to describe and analyze the recent movements of the personal income distribution, from 2003 to 2018 — or the last year of available data — having as central concern the interpretation of the top 1% income and its composition according to the origin of the income sources. The income considered will be those from labor (including individuals who have more than one job), but also income from financial or non-financial assets (e.g. rents, profits, etc.) as well as non-market income, such as public transfers, related to pensions or social programs.

The databases used are the annual National Household Sample Survey (PNAD) until 2015, and after that period, the Continuous PNAD (a regular quarterly survey), with its series beginning in 2012. In addition to these two surveys, we will use official information from the Brazilian Federal Revenue Office, since household surveys —in Brazil as well as in countries where the

studies tradition on this aspect of the distributive question is greater— tend to underestimate the magnitude of income inequality, given the specificities of the data we wish to investigate. The results of the Brazilian functional income distribution, obtained from the Gross Domestic Product (GDP), according to the Brazilian System of National Accounts (published by IBGE) are also observed to complement the analysis.

The preliminary results obtained by the authors of this proposal paper reveal that, between 2003 and 2015, there was a perceptible improvement in the Brazilian distributive profile, whether it is analyzed strictly according to labor income, or by total household income (involving the sum of income from the sources mentioned above). However, as of 2016, the indicators already seem capable of capturing a stagnation and/or reversion of the trend shown up to 2015, depending on the database considered. Likewise, data already captured from the middle of the 2000-2010 decade reveal that there was a direct and favorable relation between the evolution of personal distribution and functional income distribution, influenced by recurrent improvements in the labor market, with growth in formal employment —an average annual net generation of 1.2 million formal jobs between 2004 and 2014— and in minimum wage —almost 70% in real terms from 2004 to 2014. Given the complexity of the theme, and the proximity of the phenomenon to the present time, a more fruitful analysis of the recent movements of inequality brings the need to seek an articulated interpretation of personal incomes and incomes generated by production factors.

In the international literature, the growing concern about the top 1% theme are due to several reasons. The first, and more obvious, is that the share appropriated by this income stratum has been growing over the past few decades, and even more intensely in the 2000s. In this way, the mere fact that this stratum has been absorbing higher shares of national income in almost all developed capitalist countries makes their study relevant. The expansion of shares absorbed by the top 1% means a reduction in the share of the other strata, so that even synthetic indicators that are not sensitive to changes at the extremes of the distribution, such as the Gini index, have been showing changes that indicate continuing inequality increase in these countries.

Studies by several authors, such as Thomas Piketty, James Galbraith, Joseph Stiglitz, among others, point to the fact that, given the complex nature of income composition at the top of distribution, it is necessary to investigate, in addition to economic aspects, political and institutional factors that interfere in the trajectory of the very high incomes of all origins. In the Brazilian case, we will consider, as institutional factors, not only the constituting elements of the so-called instrumental policies of economic policy (e. g. monetary, credit, tax and exchange-rate policy), but also the effects that may already be felt as a result of recent "Reforms" promoted after 2016 (notably labor reform), which can also help to elucidate the trends in the distributive profile according to the various databases to be used.