

Abstract for “The decline in inequality in Brazil, 2003 – 2009: the role of the State”

Pedro HGF Souza (Instituto de Pesquisa Econômica Aplicada, Brazil)

Marcelo Medeiros (Instituto de Pesquisa Econômica Aplicada, Brazil)

We employ methods of static and dynamic factor decomposition of income inequality to examine the role of the State in the decline of Brazilian inequality between 2003 and 2009. The data comes from two rounds of the Brazilian Consumption and Expenditure Survey (POF). We found that about one third of the decline was related to direct income flows between the State and the families, but not all State actions contributed to reduce inequality. The contributions of different factors to the decline in inequality were 20% for social assistance, 10% for pensions and 8% for different types of unemployment insurance incomes. Behind these contributions there is more than a simple expansion of social transfers: these transfers became less concentrated. Tax policy was altered with the primary goal of increasing revenue, but ended having inequality-reducing consequences, with all direct tributes contributing with 5% of the decline. An increase in State regressive transfers, particularly a systematic increase in salaries of workers of the public sector, had a negative effect on inequality, with a contribution of -10%. Such negative effect was sufficient to offset the egalitarian consequences of changes in most State-related factor components, if each is considered separately.