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Abstract: *Latin America has been known for its persistent inequality, and the explanations of its origin vary greatly. However, in recent years (the 1990s to early 2010s) inequality in Latin America decreased significantly. In this paper, I focus on the inequality trends in Brazil to look for particular drivers that reduce inequality. Among the essential drivers are education; a reduction in the income gaps between gender, race, geography, and formality; and types of income, such as income from labor or income from conditional cash transfers. However, the effect of the drivers is not always the same, especially for education.*

Introduction

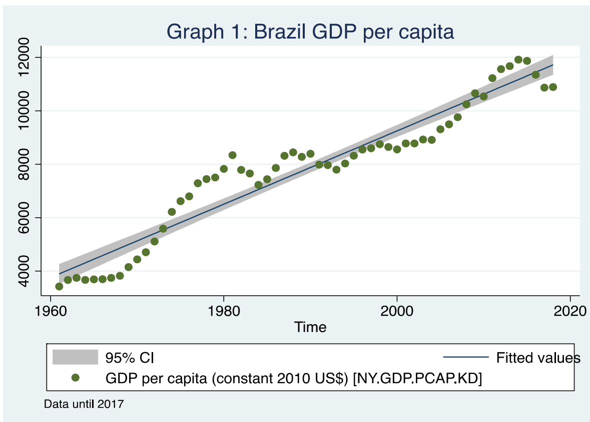
Latin America has been known for its persistent inequality, but the explanations for its causes differ significantly. Engerman and Sokoloff (1994) suggest that natural resources in an area lead to the attraction of colonialists around 1800. Also, De Ferranti et al. (2004) indicate that natural resources and the power structures that are form to extract those natural resources are part of the explanation of inequality since circa 1800. Acemoglu et al. (2002) present the idea that the power structures established during the colonialization period are part of the explanation of the current levels of inequality in Latin America. Furthermore, Armendáriz and Larrain (2017) synthesize the argument that the legal structures established in the post-colonial period influence the level of inequality in the countries. Others, like, Coatsworth (2008), say that the inequality in Latin America has a later arrival, and the lack of adaptation to the new industrial era was its cause. Williamson (2015) suggests that Latin America missed its opportunity in the "great leveling event" that happened worldwide starting in 1870. This collection of studies exemplifies how multifaceted and complex are the explanations for the inequality in Latin America.

Moreover, they have contributed to maintaining the idea that inequality in Latin America is consistently high. However, in recent decades the inequality has decreased in Latin America (Cornia 2015; Lustig et al. 2013a). This paper will focus on the recent trends in inequality in Brazil from 1989 to 2015. This paper is a literature review that looks for explanations for the reduction of economic inequality in Brazil.

A brief intro to Brazil's economy and population

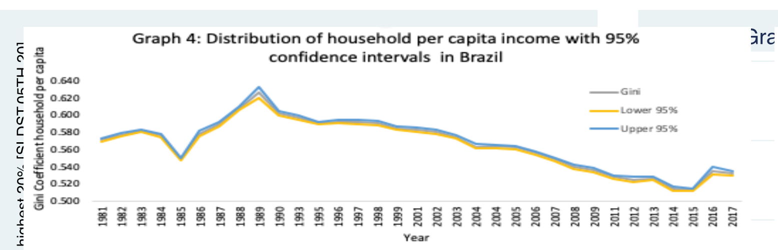
Brazil's GDP is the largest in Latin America going from 425 billion in 1989 to 2.4 trillion in 2014 (both in current US $). The gross national income per capita has grown from 2760 to 10190 (current US$) from 1989 to 2015. Other countries with similar gross national income per capita in Latin America (sans the Caribbean region) are Chile, Uruguay, Venezuela, and Argentina. Brazil's population has increased by about 58 million people from 1989 to 2015, reaching 204 million in 2015. Life expectancy was 75 years in 2015 an improvement of 9 years from 1989 (The World Bank data accessed 2020).

Evolution and main determinants of inequality and poverty in Brazil

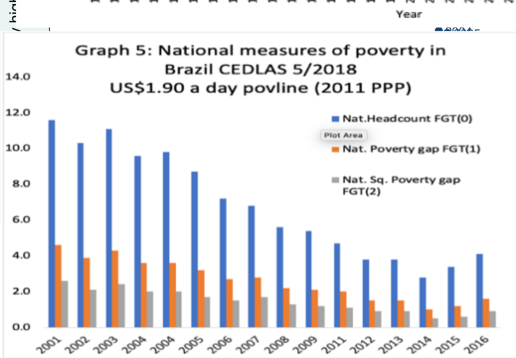


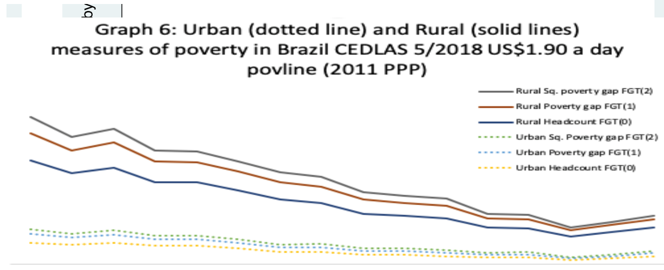
Source: Author's creation with data of the World Bank. Graph 1 includes 95% confidence intervals in gray. In the last years of the graph there is a decline in the GDP per capita.

Graph 1 shows that Brazil's GDP per capita has been increasing since 1960. Furthermore, the share of the income held by the richest quintile has decreased by almost 10 % (Graph 2). Similarly, the share of income held by the poorest quintile has increased by 50 % (Graph 3). These changes in income accumulation are reflected in the household per capita Gini coefficient, which has seen a decline by more than 10 points from 63.3 in 1989 to 51.3 in 2015 (Graph 4). However, in the last four years, there has been a reversal on this trend, the Gini has increased to 53.9. Poverty measures, at a national level, and in rural and urban areas (Graph 5 and 6) follow the Gini pattern of dramatic decline with an increase in the most recent years. Among the explanations present in the literature Ferreira, Leite, and Litchfield (2008) point to four potential explanations of the decline: 1) A reduction in the returns from education; 2) a reduction in the income difference



Source: Author's creation with CEDLAS data. Graph 4 shows the reduction of the Gini coefficient households per capita since 1990 until 2015 and a more recent increase in the Gini coefficient in 2016 and 2017.





lowest quintile. The increase is close to 50 percentage points. In
held by the lowest quintile.

Source: Author's creation with data from CEDLAS. Graph 5 is the national level poverty measurements. Graph 6 is the urban and rural poverty measurements in Brazil from 2001 to 2016. Both graphs follow similar pattern as the Gini coefficient in graph 4. In Both graphs there is an increase in the poverty levels in all of the measurements

between the rural areas and urban areas; 3) a reduction in racial inequalities; 4) an increase quantity and effectiveness in the social assistance transfer programs from the government.

Ferreira and colleagues also include economic stabilization and hyperinflation reduction as factors that may have played a role in improving income inequality.

Reduction in the returns from education

The effect of an increase in school attainment shows a fluctuating effect on inequality in the period from 1995 to 2009, as is demonstrated by (Lustig, Lopez-Calva, and Ortiz-Juarez, 2013; Ferreira, Firpo, and Messina, 2017). In both cases, the authors demonstrate that higher school attainment increased inequality (the paradox of progress) until the early 2000s, but after that, it reduced inequality. The explanations for the reducing effect are an abundance of supply individuals with higher-level school degrees that are not met with a demand higher skilled worker. Additionally, the quality of education might not match the needs of labor demand.

Reduction in the income difference between the rural and urban areas and reduction in racial inequality

According to Reis (2017), Brazil's geographical differences in density of economic activity, income per capita, and labor productivity did not change significantly from 1872 to 2000 maintaining a distinct northwest-southeast divide. One policy that has interrupted the northwest-southeast divide is the conditional cash transfer program Bolsa Família. The Bolsa Família program targets individuals by geographical location and by means-testing their poverty or extreme poverty status (CEPAL 2014). The Instituto Brasileiro de Geografia e Estatística, (2010) reports over 57,324,167 million families, covering about 22 % of the families. The cost is very cheap, 6.5 billion US $, which is about 0.003 of Brazil's GDP for 2019 (~2 trillion US$) (CEPAL 2014). Perhaps the most impressive results that Higgins (2012) reports are a reduction in the squared poverty gap in 2009 by 50% in the most rural state Piauí and 8% in Rio de Janeiro (when adjusting spatial price index à la Laspeyres).

Furthermore, Ferreira, Firpo, and Messina (2017) argue that the reduction of inequality in Brazil is due to two factors: a decrease in the returns to potential experience and a decline in wage gaps between gender, race, geography, and formality. The potential experience is an estimation of the individual labor experience and had an essential role in reducing income inequality in Brazil from 1995 to 2012. The effect of reducing inequality is explained by individuals spending more time acquiring their degrees, reducing their work experience levels, leading to earning less income. Meanwhile, this is happening in a context where there is an overabundance of skilled labor supply.

Improvements in the social assistance transfer programs

The first transfer program in Brazil starts in 1988 with the creation of the current constitution of Brazil. It is a social care system for individuals with different capacities and individuals with insufficient pensions or income. In 1995, the first conditional cash transfers started to emerge in different municipalities and the Federal District of Brazil. The great success of these initial programs and the sharing of experiences prompted the creation of the Guaranteed Minimum Wage Program. During the government of Fernando Henrique Cardoso, the conditional cash transfer programs reach national coverage. At the same time, more programs are created, and some replaced the existing programs. The new programs are Bolsa Escola, Auxílio Gás, Cartão Alimentação. These new programs were later unified under Bolsa Família by Ignácio Lula Da Silva. The goal of the unification was to reduce the bureaucracy and allows for more efficient control and transparency. Later, Dilma Rousseff adds a more complex vision to the program Bolsa Família. This new vision included three pillars: urban employment, rural production, and access to public services (CEPAL 2014). In ten years (2003 to 2013), the cost of the transfers has only increased 0.31 of a percentage points of the GDP with an increase of the population coverage of 19.1% (CEPAL 2014). Additionally, (Sánchez-Ancochea and Mattei 2011) estimate that the Bolsa Família program reduced the GINI coefficient by 10% from 2001 to 2008.

Economic stability and Hyperinflation reduction

It is not the first time that inequality rises in Brazil in fifty years. (Ferreira et al. 2008) provide two possible explanations as to why inequality rose from 1984 to 1993, inflation and increase school attainment. In the current rise in poverty and inequality, these two explanations do not play a role. Inflation does not explain the recent increase in inequality because, since 2000, inflation (consumer price index) has been decreasing, from 7.4 in 2000 to 3.7 in 2019 (The World Bank, data accessed 2020).

Other explanations

Income from labor

Another explanation for the reduction in inequality came from Soares *et al.* (2018) when they evaluated the impact of the program Bolsa Família and other programs. They argue that income from labor has the most substantial effect on reducing inequality. The change in the concentration and composition coefficient is -0.0234. This change is not surprising because labor income has a high percentage of all the types of income an individual receives. Conditional cash transfers and other types of incomes (*Other* is a catch-all category that is anything but conditional cash transfer, social security, or labor income) also had a significant effect on reducing inequality. Their concentration and composition coefficients are -0.0057 and -0.0043, respectively. A counterintuitive result came from the social security concentration and composition coefficient (0.0060). This coefficient indicates that social security increases inequality. Soares *et al.* (2018) explain this phenomenon by arguing that individuals in the lower-income deciles do not have access to contributing to social security systems such as retirement pensions. Furthermore, Ferreira, Firpo, and Messina (2017) argue that minimum wage increases had a decreasing effect on inequality from 1995 to 2003. However, from 2003 to 2012, it increased inequality, to the point that in the whole period, the effect of the minimum wage was nullified.

As Firpo and Portella said 2019 when referring to the relation of minimum wage to income inequality, it depends on the economic context. Sometimes an increased income will lead to a decrease in the inequality, but not always. The factors that will affect income's capacity to reduce inequality are actual compliance with the minimum increase and saturation of the minimum wage capacity of reducing inequality.

Conclusions

In this paper, I review several explanations for the reduction of Brazil's economic inequality. One important observation that can be distilled from the explanations is that the economic, social, and political context is important in determining the effect on economic inequality (Firpo and Portella, 2019). To exemplify this point we can see the progress paradox (Lustig, Lopez-Calva and Ortiz-Juarez, 2013), where an increase in educational attainment could lead to an increase in economic inequality. An increase in educational attainment would not reduce inequality if there are no jobs available for the high skilled individuals. Additionally, having a higher education degree does not guarantee that the education is enough to match the demands of the jobs available.

Minimum wage is another instance where the context is important. We can see from Firpo and Portella (2019), that an increase in the minimum wage can have a reduction or an increase in economic inequality it depends on the actual compliance of the minimum wage increase mandate. In the informal sector, this compliance tends to low. Also, if the minimum wage is closer to the median wage its impact on income inequality would not be that strong (Firpo and Portella, 2019).

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