

# Brazil Divided: Hintsights on the Growing Politicisation of Inequality

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## Overview

*The political polarisation surrounding the 2018 Brazilian presidential election can be associated to class cleavages linked to the Workers' Party's policies in directly improving the living conditions of the poor, and indirectly benefiting elites, largely to the neglect of the middle class. The poorest 50% in the income distribution have been increasingly more likely to vote for the PT and other left-of-centre parties since 2002 compared to the richest 10%. This striking evolution occurred in a context of strong income growth for the bottom deciles (almost twice the national average), compared to the lower-than-average-growth for the upper-middle class. The richest percentiles also benefited from stronger-than average growth during the high-growth phase of the 2000s.*

*The difference between the rich and the poor is that the former's recent voting intentions seem to be more motivated by concerns about corruption, security and education, than employment or health issues, which are more often cited by members of the Bottom 50%. The Bolsonaro vote has gathered those who are disappointed with the political system's corruption and complacency for security issues, as well as those who are appeased by the candidate's liberal economic program. In Europe or the United States, the increasing support for "populist" far-right movements has often been attributed to individuals with lower levels of education and income. In Brazil, on the contrary, Bolsonaro has attracted greater proportional approval from the country's high-education and business elites.*

Jair Bolsonaro's success in receiving support from 46% of the Brazilian electorate in the first round of the 2018 presidential election stands in sharp contrast with the incumbent Workers' Party's inability to gather more than one third of the popular vote. This historic movement against the ruling party is representative of multiple dimensions. It is partly a reflection of the multiplication of corruption scandals and the recent economic crisis. But it also represents the culmination of class divides which have developed from previous government policies towards the poor, at the expense of mostly the upper-middle class.<sup>1</sup>

## How has Brazil become so divided?

After over twenty years of military dictatorship (1964-1985), Brazil held its first presidential election in 1989. Fernando Collor de Mello, from the liberal-conservative *National Reconstruction Party*, defeated the socialist candidate Lula da Silva in the second round with 53% of votes. In a context of hyperinflation, Collor's presidency was marked by the implementation of a neoliberal program, which involved the privatisation of public companies and the liberalisation of the trade and capital accounts.

In 1994, Fernando Henrique Cardoso, who had successfully reduced inflation as Minister of Finance under the previous government, won the presidential election directly in the first round with 54.3% of votes (Lula only received 27%). Cardoso was re-elected in 1998 with 51.1% of popular support (against 31.7% for Lula). While he continued Collor's privatisation and deregulation initiatives, Cardoso was also the first president to implement large-scale social policies by the turn of the 2000s, such as *Bolsa-escola*, a program of transfers dedicated to stimulate school participation, and the *Auxílio-gás*, which subsidised bottles of gas for poor families.

Following Brazil's currency crisis, which started just

after Cardoso's re-election, slower growth and rising unemployment eroded popular support for the leader of the *Partido da Social Democracia Brasileira* (PSDB). In 2002, Lula and the *Partido dos Trabalhadores* (PT) won the election in the second round with 61.3% of popular vote. Due to great uncertainty in financial markets at the time of the election, Lula was forced to sign the '*Carta aos Brasileiros*', a text in which he promised not to fundamentally change the inherited economic policy of Brazil if he won the election. In 2003, Lula's government created *Bolsa Familia*, which combined and expanded the policies started by Cardoso into a set of conditional cash transfer programs, providing financial aid to millions of

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*The rise of class divisions in Brazil is intrinsically linked to the PT's success in fighting poverty since 2002.*

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poor Brazilian families. The first Lula government also significantly re-valourised the minimum wage, which grew at almost 7% per year in real terms between 2003 and 2005. Growth picked up as the economy benefited from a boom in primary commodity prices and a substantial expansion of exports.

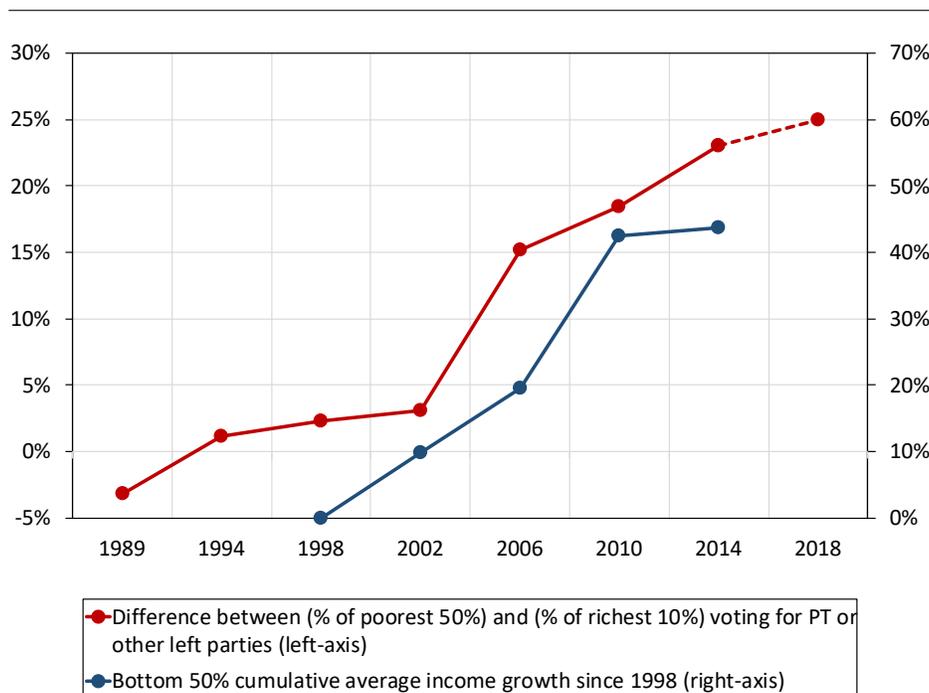
The 2006 election returned Lula and the PT to the executive with 60.9% of the vote in the presidential contest. The second Lula government was marked by higher economic growth than the preceding term, a period often referred to as the "Milagrinho" ("Mini Miracle"). This shift was spurred mainly from the domestic expenditure side, as federal investments expanded at around 28% per year. This was the result of the *Programa de Aceleração do Crescimento* (PAC), a large-scale investment program launched in January 2007, targeting the areas of energy, housing and sanitation and logistical infrastructure. These outlays drove the significant rise in total investment in the country. Generous credit subsidies from state-owned banks further helped. Household consumption doubled its growth from the preceding period, while the real value of the minimum wage and of social assistance transfers continued to rise.

In 2010, Lula's successor, Dilma Rousseff, was elected

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<sup>1</sup>In this issue brief, we take the Bottom 50%, the Middle 40% and the Top 10% in the income distribution as simple indicators for low income groups, middle-income groups and socio-economic elites respectively. The "middle class" can be broadly understood as the portion of the distribution that cuts across middle-income groups and top-income groups outside of the top percentile.

**Figure 1. The Rise of Class Cleavages in Brazil, 1989-2018**



Source: authors' computations based on surveys conducted by the Datafolha institute and income data from Morgan (2017). Left parties include the PT, the PDT, the PCdoB, the PSOL (from 2006 onwards) and the PSB (for 2002 only). Interpretation: the poorest 50% Brazilians have been increasingly more likely to support left parties in the first round of presidential elections compared to richer citizens (the same result holds if we take the Middle 40% in place of the Top 10%). By 2014 the Bottom 50% saw their average income increase by 42% since 1998, while they were 23 percentage points more likely than individuals in the Top 10% to vote for the PT or its parliamentary allies.

president from a majority of 56.05%, with the explicit objective to continue Lula's achievements. She created several new policies, such as the *Brasil Sem Miséria* program, which extended *Bolsa Família* and aimed at eradicating absolute poverty. She was re-elected by a tight margin in 2014 against the PSDB candidate Aécio Neves with 51.64% of votes, at a time when growth was slowing down. In 2016, in the midst of the sharpest recession the country had experienced since the early 1980s, alleged accounting manipulations in the budget initiated an impeachment process against Rousseff, which was to be defined by revelations that several politicians of her party and administration were being investigated for receiving bribes from large corporations, including the state-owned company Petrobras. Rousseff was officially impeached and her Vice President Michel Temer, from the centrist *Movimento Democrático Brasileiro* (PMDB), took her place on the

31<sup>st</sup> of August.

The PT's victory in 2002 and in the following elections can be understood as the result of a progressive change in Brazil's political space. In the late 1980s, the party originally mobilised large networks of highly educated, middle-class urban populations who believed in the viability of socialism and in the party's redistributive stance. During the 1990s, however, popular support for Cardoso's *Plano Real* "suggested that the PT's promises to combat deep structural causes of poverty and inequality (for example, land distribution) were much less attractive to poor voters than immediate albeit limited improvements".<sup>2</sup>

Even if the party's welfare programs should be thought of in continuity with those of previous governments,

<sup>2</sup>Hunter, Wendy (2007). "The Normalization of an Anomaly: The Workers' Party in Brazil". *World Politics* 59.03, pp. 440-475.

there is extensive evidence that unprecedented increases to the minimum wage and social assistance during Lula's first mandate, and in particular *Bolsa Família*, led to a dramatic change in the Workers' Party's voting base. Poor voters with low levels of economic security massively turned towards the PT.<sup>3</sup>

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*If Lula had participated in the 2018 election, 44% of poor Brazilians would have supported him, compared to only 17% of those belonging to the highest decile.*

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The rise of *petismo* since 2002 is therefore intrinsically linked to the implementation of welfare policies directed to the most disadvantaged social groups of the country, and to wage and expenditure-led policies more generally.

Figure 1 plots the evolution of class cleavages in Brazil with a simple indicator: the difference between the proportion of individuals belonging to the poorest 50% and the proportion of individuals belonging to the richest 10% of citizens voting for the PT or other minor left parties in the first round of presidential elections. From 1989 to 2002, no clear pattern is visible: Lula's PT and other left parties were supported by a diverse electorate bringing together voters from all areas of the social strata.

Since 2006, by contrast, lower income classes have increasingly approved agenda of the PT (and its "allies"). In the 2014 presidential election, the Bottom 50% were more likely to vote for left parties than economic elites by 23 percentage points. And even though recent opinion polls are not yet publicly available, figures from a survey conducted in October 2017 point to potentially unprecedented levels of political polarisation. If Lula had participated in the 2018 election, 44% of the poorest half of the population would have supported him in the first round (70% in the second round), compared to only 17% of voters belonging to the highest decile (37% in the second round). Therefore, the context of the current Brazilian presidential election results at least

partly from the distributional conflicts associated with the PT's policies. Looking more precisely at the distribution of economic growth since 2002, in particular, can provide useful insights into the socio-structural factors behind the recent rise of the extreme right in the country.

## Who benefited from Brazil's economic growth in the 2000s?

Figure 1 also plots the real cumulative average income growth of the Bottom 50% since 1998. It can be seen that growth in bottom incomes was particularly strong between 2002 and 2010. By the latter year, the average income of the poorest 50% of Brazilian adults was some 42% higher than what it was in 1998. Even as this growth tailed off by 2014, the recognition of the gains made during the PT and its allies' administrations was sufficient to further propel support for them. A combination of path dependency and less "favourable" alternatives thus contributed to widen the cleavage gap, from the point of view of the traditionally less-favoured classes.

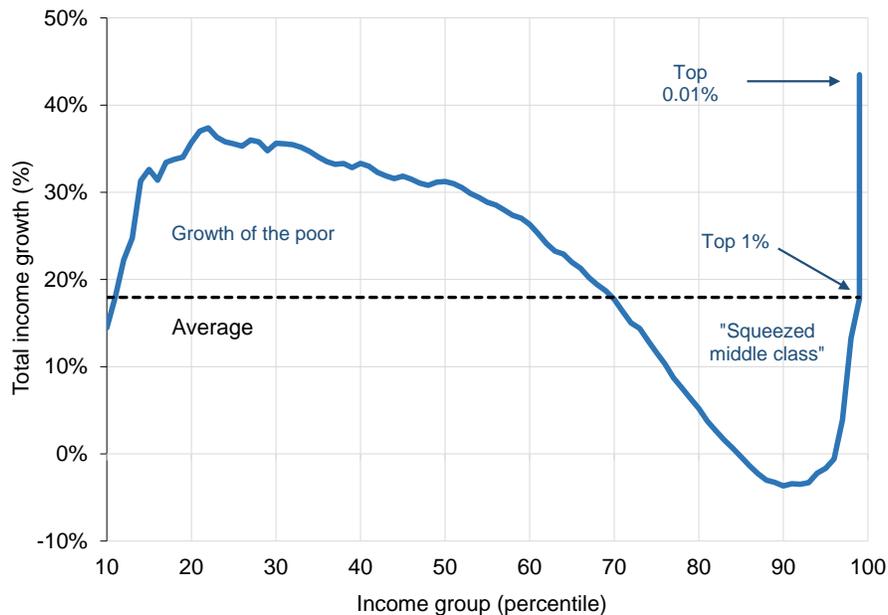
A more comprehensive picture of the growth incidence by income group is presented in Figure 2. It shows the percentile distribution of total real income growth between 2002 and 2014. While average national income per adult grew at 18% over the period, the majority of the gains was split between two distant groups – the poorest percentiles and the very richest percentiles. Most individuals in the Bottom 50% saw their incomes grow by nearly twice the national average. Growth was lowest for middle percentiles, averaging beneath the national average for individuals between the 70th percentile and the 99th percentile. This "squeezed middle class", comprising both a lower and upper strata, have been Brazil's "left-behind", in an evolution that is strikingly similar to the global growth incidence curve since 1980.<sup>4</sup> The very summit of the distribution shows the significant income gains made by the Brazilian elite over the period – interestingly, the groups less likely to vote

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<sup>3</sup>Zucco, Cesar and Timothy J. Power (2013), "Bolsa Família and the Shift in Lula's Electoral Base, 2002–2006: A Reply to Bohn". *Latin American Research Review* 48.2, pp. 3–24.

<sup>4</sup>See the [World Inequality Report 2018](#).

**Figure 2. Income inequality in Brazil, 2002-2014: Growth Incidence Curve**



Source: authors' elaboration based on data from Morgan (2017). Interpretation: the income of poorer Brazilians grew significantly faster than that of the "middle class" between 2002 and 2014.

for the party that also oversaw their prosperity.

These dynamics have as much to do with external conditions, as they have with domestic policy initiatives. Employment and income gains were reaching the poor early on in the decade, through centralised wage bargaining, social transfers, and later public investment, which added to the consumption growth of families. An array of dedicated social-inclusion policies, from employment and housing, to healthcare and education, were promoted with special attention to the participation of lower-income groups. Informality rates declined substantially, as a greater share of previously excluded workers entered registered employment, contributing to social security. Above all, material poverty strongly declined over the period, with individuals living in households under the nationally-defined poverty line falling from over 30% of the population to around 15% across the period. At the same time, the large federal investments and credit subsidies proved lucrative for capital-owners, as private investments were given further impetus and handsome returns were made by

resource-owners linked to the primary commodity and export sector. The income growth of the rich was facilitated by the absence of any significant reform to the country's regressive tax system, whose income component is mainly borne by the upper-middle class. The bullish economic environment, up to 2014, was also captured in the growth of finance, and financial products. The stock market was buoyant, while consumer credit took a sharp upswing, in line with the growth in real estate prices. These evolutions underpin the income growth of services (at both ends of the distribution) in the economy, to the continued detriment of manufacturing and its urban middle-income constituency.

Thus, the middle classes, to a large extent, have been pitted against the least privileged groups in society for their share of the national product, which would become increasingly scarce after 2014. Furthermore, with prices beginning to rise from 2013, following rising labour costs – including for services routinely used by the upper-middle class (e.g. domestic service) – and

## Brazil: a country with an extreme inequality legacy

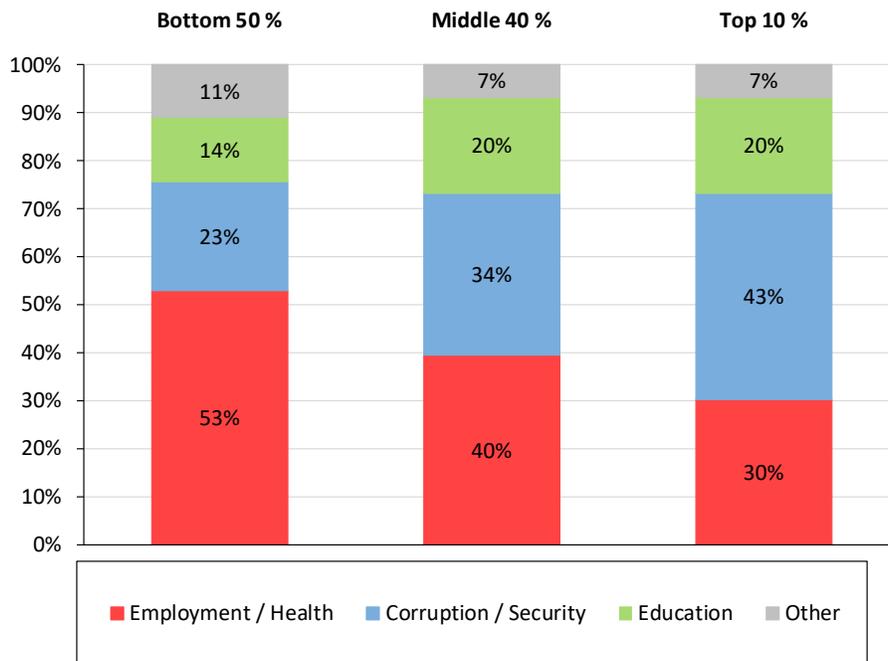
Social distinction and economic inequality have dominated Brazil's social landscape, at least since the settlement of Europeans around the turn of the 16th century. After gaining independence from Portugal in 1822, only domestically born, literate, rich male Catholics could vote in Brazil. An electoral law of 1881 extended the suffrage to non-Catholics and naturalised citizens. Yet it still officially excluded women, the illiterate and slaves, the latter two covering at least 80% of the voting age population. Brazil became the last country in the Western hemisphere to abolish slavery in 1888, three years before the new republican constitution. Yet, Afro-Brazilians continued to be discriminated thereafter due to their low education, high illiteracy and restricted access to land – no significant land reforms followed the Republic or any other subsequent constitutional change in Brazilian history. While income and gender requirements for voting were abolished in 1891 and 1934, the official exclusion of the most underprivileged members of society from the political process was maintained for another century, until the 1988 constitution removed the literacy requirement, at a time when approximately 20% of the voting-age population were still without effective reading or writing skills.

The legacy of extreme inequality is also present at the geographical level. This dates back at least to the 1830s when Brazil's monarchy (represented in the Rio de Janeiro regency) granted extensive economic autonomy to the provinces. The 1891 republican constitution put strong limits on the central government's powers, in a move consistent with the preceding 50 years of autonomous regional rule. This was especially driven by São Paulo's powerful coffee oligarchs, who were interested in directly controlling the federal executive through their local *patrias*. Thus, a patriarchal system of rural ward politics was consolidated at the municipal level known as *coronelismo*. In this coercive system, municipal councillors ("coronels") elected state governors, who in turn chose the president of the country. This informal allocation of powers gave way to the Old Republic (1891-1930) being often labeled as the "café com leite" (coffee and milk) republic, as domestic power was generally shared between landed elites, from either the coffee rich state of São Paulo or the cattle rearing state of Minas Gerais, both in the Southeast. This system facilitated the persistence of mass inequality in the countryside, which accounted for the majority of the national population until approximately 1970. Over time, as new economic activities were developed, an important income cleavage emerged between the more urbanised and industrial parts of the country in the South and Southeast, which concentrated large numbers of European descendants, and the more traditional and rural-based regions of the North and Northeast, concentrating a higher share of former slave families.

The Southern regions have historically concentrated the main political and economic functions of the country, including the control of the most valuable commodities (gold, livestock, coffee, oil), and heavy industries. This dualism heavily concentrated income in the hands of a few, as advanced industry was swiftly promoted before the full economic integration of the rest of the country, while agricultural land continued to be tightly owned. Today, the Southern regions provide the bulk of fiscal incomes to the tax authorities, with the states of Rio de Janeiro and São Paulo themselves contributing around half of all national fiscal income reported to the federal tax office by Brazil's 27 states. Over the last century, the richest 1% of Brazilians have received over one quarter of the country's national income on average, levels not replicated for such a timespan in most other countries.<sup>a</sup>

<sup>a</sup>Morgan, Marc and Souza, Pedro (2018), "Distributing Growth in a Large Emerging Economy: New Evidence on Long-Run Inequality in Brazil (1926-2016)", WID.world Working Paper Series, Forthcoming.

**Figure 3.** Reasons Determining Candidate Choice in 2018 by Income Group



Source: authors' computations based on a survey conducted by the Datafolha institute in October 2017. Interpretation: more than half of the poorest 50% Brazilians considered health- and employment-related issues to be most important in determining their future choice between presidential candidates in 2018.

their acquired entitlements to social insurance coming under increased scrutiny, this cohort would increasingly lose faith in a Workers' Party that was only perceived to be in it for the working poor. On top of this, the subsequent economic decline, and a mirage of corruption charges against high-profile politicians across the political spectrum, but especially from the PT, along with a return of a more invigorated Lula to the electoral process, made elites increasingly hostile to further PT-led executives. Notwithstanding the national media campaign against the PT, a certain degree of myopia may be levelled against the very rich concerning the process that led to their prosperity over the preceding decade. Their success in fending off progressive tax reform and eventually toppling a government, coupled with the rise of Bolsonaro's "reactionary populism", is a reflection of the divisions created between the bottom and middle classes.

## Who supports Bolsonaro?

The wide victory of Bolsonaro in the first round of the 2018 presidential election can be related as much to the dissatisfaction towards the PT's corruption scandals, as it can to the opposition towards its welfare policy agenda. One year ago, Brazilian voters were asked about the issues which would be most decisive in determining their vote in the 2018 presidential election. Contrary to what one might expect, corruption was not at all the most important problem for a majority of Brazilians at the time: 32% of survey respondents chose health, 16% selected education and 14% insisted on job creation being the policy areas which would primarily influence their candidate choice. "Fighting against corruption", by contrast, was chosen by only 18% of individuals, and cannot therefore be considered as the sole responsible factor behind Bolsonaro's recent success. Strikingly, the intersection of issue-relevance with personal socio-

economic characteristics appears to be fundamental in explaining the polarisation of the Brazilian electorate.

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*The PT's electoral base has been reduced to those poor voters who believe health, unemployment or welfare issues to be more important than corruption.*

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greater importance to corruption or public security. More than half of Bottom 50% earners considered that employment- and health-related issues would determine their vote, compared to only 30% of those belonging to the Top 10%. These tendencies can help us understand how different socio-economic classes have internalised their relative income gains.

The rise of Bolsonaro can thus potentially be explained by his ability to appeal to voters on both types of issues. By positioning himself against the corruption and violence “tolerated” by the current democratic system, he has attracted a large portion of the educated middle and upper classes who strongly resent the multiple scandals faced by incumbent governments. And by supporting non-progressive taxation, cuts to public spending and further privatisation programs, he has appeased a broad group of middle class citizens and business elites who either feel left behind by the PT’s economic policies or unrecognised by them. The geography of the first round of the presidential election supports this conclusion: only the regions of the north-east, concentrating the poorest segments of Brazilian society, gave a majority to the PT’s candidate, Fernando Haddad. Hence, the voters who continue to support the Workers’ Party are those who believe social and health issues to be primordial over corruption, and who have the most to lose from the consequences of Bolsonaro’s economic program.

Bolsonaro’s conservatism and conceded nostalgia for the military dictatorship has been omnipresent in media coverage and public debate. In October 2017, Brazilian

Figure 3 decomposes the most important issues reported by survey respondents by the income group to which they belong. Poorer voters appear to be significantly more likely to emphasise social and economic matters, while richer citizens tend to attach

voters were asked whether democracy would always be better than any other form of government, or if a dictatorship could be preferable in some circumstances.<sup>5</sup> Surprisingly, preference for democracy was only weakly associated with vote intentions: if the second round of the presidential election had opposed Lula to the leader of the Social Liberal Party (PSL), 41% of voters who value democracy more than any other form of government would have supported Bolsonaro, compared to 43% of those who do not. This can be explained by the fact that wealthier and more educated citizens tend to have *stronger* preferences for democratic rule. Opinions on democracy have therefore constituted a cross-cutting cleavage in the 2018 election: some upper-class individuals have chosen the far-right candidate despite disagreeing with his vision of political institutions. In other words, the potential threat that Bolsonaro poses to democracy in Brazil has been obliterated by the corruption and economic issues which remain decisive in voters’ minds.

Only new data on income inequality and voting behaviours will enable us to unveil more precisely the true factors behind the success of Bolsonaro and the PSL in the 2018 election. Yet, this retrospective study has the advantage of contextualising this emergence and shedding further light on its socio-historical factors. In Europe or the United States, support for “populist” far-right movements is usually concentrated among individuals with lower levels of political, economic and cultural capital. In Brazil, on the contrary, Bolsonaro has attracted greater proportional approval from the country’s high-education and business elites.

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<sup>5</sup>The exact wording of the choices was: “democracy is always better than any other form of government”, “in some circumstances, a dictatorship is better than a democratic regime” and “democracy and dictatorship are equivalent”.

## Learn more about economic inequality and distributive politics in Brazil

This issue brief is based on recent research works done by the authors.

Marc Morgan is a PhD candidate at the Paris School of Economics and economist at the World Inequality Lab. In “Falling Inequality vs Persistent Concentration”, he re-examines the evolution of income inequality in Brazil over the last twenty years using a novel combination of data sources. He measures distributional national accounts to produce a new series of pre-tax national income inequality, combining annual and nationally representative household survey data with detailed information from administrative fiscal data, in a consistent manner with macroeconomic totals. His results provide a sharp upward revision of the official estimates of inequality, while the falling inequality trends are less pronounced than previously measured.

Amory Gethin is an economist at the World Inequality Lab. In “Cleavage structures and distributive politics”, he studies the evolution of social cleavages in Brazil, South Africa, Australia, Canada and Japan and connects them to changing conflicts over economic resources in these countries. His findings reveal that three complementary factors are tightly linked to income inequality. If parties politicise distributive conflicts, voters polarise on issues making equality electorally profitable and low-income earners are politically mobilised, then governments are more likely to implement redistributive policies. These dimensions of democratic competition generate equilibria which are key to understanding recent inequality trajectories.

✉ Morgan, Marc (2017), “Falling Inequality vs Persistent Concentration: Reconciling Evidence from Surveys, Administrative Data and National Accounts in Brazil (1995-2016)”, WID.world Working Paper n. 2017/12, Version: October 2018, forthcoming on WID.world.

✉ Gethin, Amory (2018), “Cleavage structures and distributive politics. Party competition, voter alignment and economic inequality in comparative perspective”, master thesis directed by Thomas Piketty, Ecole des Hautes Etudes en Sciences Sociales.

## The World Inequality Lab

The World Inequality Lab aims to promote research on global inequality dynamics. Its core mission is to maintain and expand the World Inequality Database. It also produces inequality reports and working papers addressing substantive and methodological issues. The Lab regroups about twenty research fellows, research assistants and project officers based at the Paris School of Economics. It is supervised by an executive committee composed of 5 co-directors. The World Inequality Lab works in close coordination with the large international network (over one hundred researchers covering nearly seventy countries) contributing to the database.

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