

DEMOCRACY WORKS | CONFERENCE PAPER | 2014

# Brazil: Democracy and Inclusive Growth

by Simon Schwartzman and  
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*Voices* FROM THE *South*

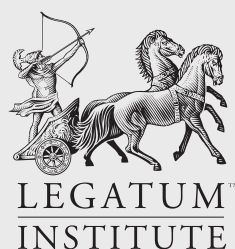
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## Executive Summary

Brazil has a history of high levels of poverty and social inequality. Although there have been significant improvements in the last several decades, the country has not achieved the standard of wellbeing its citizens expect. In this paper, we discuss the links between social development and democracy, presenting data and analysing some of the main public policies put in place by governments to try to deal with issues of poverty and inequality. We argue that although such policies have played a positive role, most of the improvements that have taken place in recent years are due to broad processes of social change, economic development, and broad economic policies, rather than the outcome of specific policies aimed directly at reducing poverty and inequality. We also argue that Brazil's status as a democracy, with regular elections and a free press, has contributed to place the rights and demands of the poorer and minority sections of society higher on the policy agenda, but, at the same time, may have limited the public sector's ability to deal with entrenched vested interests, and to improve the quality of public services. The main issue for the future is whether Brazil, while maintaining and improving the quality of its democratic institutions, will be able to continue to expand the distribution of social benefits and entitlements as it has up to now, considering the nature of the new challenges, the issues inherent in an urban and aging population, and the limitations in resources.

## ACKNOWLEDGEMENTS

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## Context

### DEMOCRATIC INSTITUTIONS, GOVERNABILITY, AND SOCIAL EQUITY IN BRAZIL

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There is no causal association between democracy, on one hand, and equity and social inclusion on the other. Authoritarian regimes can be better than democracies at producing social equity, while continuous expansion of social participation, empowerment, and distribution of social benefits in democratic regimes can lead to policy paralysis, making governments unable to implement long-range policies that may go against short-term aspirations and entrenched interests. It is clear, however, that more developed countries tend to be more democratic, and also that economic and social development tends to put pressure on authoritarian regimes to liberalise.

'Democracy' can mean different things, and democratic regimes can vary enormously in their ability to identify and implement public policies of different kinds. A minimalist concept of democracy, adopted by Adam Przeworski following Schumpeter, is that of "a political regime in which rulers are selected through free and contested elections. Operationally, democracy is a regime in which incumbents lose elections and leave office if they do" (Przeworski 2004). Other attributes of democracy, however, include: universal suffrage; a free press; the protection of individual freedom and minority rights; a multiparty system; electoral systems based on fair representation and proper use of resources in political campaigns; the quality and balance of power among executive, legislative, and administrative bodies; and the professionalisation of the civil service. Besides individual and political rights and law and order, democracies are also measured by their ability to provide citizens with healthcare, education, and old-age protection.

Based on these criteria, Brazilian democracy is more consolidated than many other countries in Latin America and other parts of the developing world, although it still has a long way to go (Lamounier 2005). The country went through two periods of democratic breakdown in the twentieth century, 1937–45 and 1965–84, but since 1985, Brazil has enjoyed the benefits of regular elections, a free press, and fair protection of individual and minority rights. It is relatively easy in Brazil to form political parties and they are entitled to free time on radio and TV to express their views. However, the rules of electoral representation, based on proportional elections by states, under-represents the largest regions and obscures the links between congressmen and their constituencies. As a result, the electoral system is almost impossible for the public to understand, and there is no clear link between voting choices and who is elected and what they do with their mandate.

The Brazilian Congress is powerful enough to distribute benefits to the legislators' constituencies, but too weak to set broader policy directives. The judiciary has kept its autonomy, but is overwhelmed by excessive demands and cumbersome procedures, and not immune from corrupt practices. The expansion of the public sector increased the presence of entrenched interests in the bureaucracy, but, with a few exceptions, did not make it more professional and autonomous. The frontiers

between the public and private sectors are blurred, leading both to government encroachment on market activities and to private interests taking control of public institutions. Political decentralisation, a landmark of the 1988 constitution, empowered state and local governments to raise taxes and claim resources from the national government, but, again with exceptions, it did not make them better able to implement local policies that fall within their jurisdictions.

The political arrangement after 1988 has been described as a “coalition presidentialism” (Abranches 1988), a system in which the president’s party does not necessarily hold the majority in Congress. Parliament, composed of two chambers, has to pass common legislation, approve the budget, and approve some key appointments (ambassadors, members of the Supreme Court, and the president of the Central Bank). Constitutional amendments require a majority of three-fifths in both houses. To be able to function, this kind of arrangement requires the federal government to reward political support with benefits to a broad alliance of supporters, approving their special interest bills, giving them places in the cabinet, and tolerating high levels of corruption. In addition, the presidency in Brazil can issue ‘provisional acts’ that become laws pending congressional approval. Moreover, since the mid ’90s, the presidency is authorised to freely spend 20 percent of previously earmarked taxes. State governments and municipalities are autonomous, but very few are self-supporting. They are entitled to financial transfers from the central government, some of them according to established rules, but a share of them are dependent on political loyalty to the executive (Abrucio 1998).

A central feature of Brazil’s democracy is the large size of the public sector and the tax burden, the highest among developing countries in the world (Tanzi and H.. 2000, Oliveria and Giuberti 2009). In 2010, 57 percent of tax revenues were spent by the federal government, 25 percent by state governments, and 18 percent by municipalities, regardless of who collected them (most are collected by the federal government) (Afonso and Castro 2011). The amount of taxes collected by the Brazilian governments is around 35 percent of GDP, up from 25 percent in 1991, and growing. The reasons for this growth, which started in earnest with the stabilisation programme in 1996, include the servicing of public debt; the growing size of the public bureaucracy, with an expansion of the number of civil servants and increases in their salaries; the growing costs of social security, healthcare, and education; and public investments in infrastructure, energy, sanitation, and other areas. A breakdown of the expenses of the federal government and its evolution in the 1999–2009 period shows that most of the growth took place in social expenses, while the amounts used for investments grew very little.

There is in Brazil an implicit social pact created by the democratic regime in 1985 and solidified by the 1988 Constitution, according to which investments for economic growth take second place to the expansion of social welfare. If for some reason the economy grows, Congress votes for an increase in expenditure with the support of the national government, which in turn has ample support from the electorate. (Pessoa 2011).

One of the goals of the 1994 stabilisation plan was to reduce the size of the public sector by selling public companies and closing down government owned banks. At the same time, the government had to take responsibility for the existing public debt, and needed more tax revenues to do so—the Lula government thus opted to increase the presence of the public sector in the economy. Although it did not reverse the privatisation of public companies, the government increased the role of large state-controlled organisations such as Petrobrás, the oil giant; two of Brazil's major commercial banks, Banco do Brasil and Caixa Econômica Federal; and the National Development Bank (BNDES), which operates as a major investor in selected industrial and services companies considered 'strategic' by the government. The government also has indirect control of the large pension funds of state-owned companies and banks that are major players in Brazil's financial capital, and it controls the stock of many utilities and telecommunication firms. Taken together, these companies and agencies could be seen as a powerful instrument for the implementation of public policies by the national government, and also represent special interests placed outside the market that 'cannot fail' and are potential sources of bad use of public money and corruption.

The federal government may have the most resources and influence, but most civil servants are employed by state governments and municipalities, and paid from local taxes or transfers from the national government. A recent press release by IPEA, a government research institution, showed that there were 10.2 million public employees in Brazil in 2010, about 20 percent of the country's total formal employment, of which 947,000 were employed by the federal government and 823,000 by state-owned companies. Most of the growth in recent years took place in municipalities, particularly in the areas of education, health, and social services. The press release argues that, although the number of federal employees has grown since the beginning of the Lula period, it is still lower than the peak of 1992 and the cost of these employees has remained stable as a proportion of the government's revenue (IPEA 2011).

Besides its cost, there are many other criticisms of the civil service, such as its professionalisation, efficiency, effectiveness, and transparency (Abrucio 2007). In spite of important advances in the organisation of some civil-service careers, there are estimations that there are more than 20,000 slots open for political appointment by the national government and its ministers. With a few exceptions, the civil service is extremely constrained in its activities by budgetary formalism and public accounting, making procedures reliant on efficiency and efficacy. To increase efficiency and reduce costs, successive governments have created private or semi-public entities to implement specific services, always under strong opposition from civil-service unions, the National Accounting Office, and the judiciary.

## A SHORT HISTORY

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Both authoritarian and democratic regimes in Brazil have had their periods of more or less governability, and the political cycles in the country's life can be told in terms of its up and downs. In 1964 the military took over after a crisis of runaway inflation, political paralysis, and cold-war radicalisation. The regime was able to

improve the economy and engage in an active policy of state building for about 15 years, thanks in part to extremely high rates of economic growth in the 1970s, a period which became known as the “Brazilian miracle” (Fishlow 1980). In spite of limitations in political participation and freedom of expression, some significant social policies were implemented, including the expansion of social security to rural areas, as well as an aborted project for mass literacy, and a more successful development of graduate education and university research.

Governability went down very rapidly, however, with the oil shocks of the 1970s, the growing pressures for more freedom of public opinion, the change in the cold-war climate, and internal conflicts among the military. Following a negotiated transfer to civilian rule in 1985, the new civilian government was supposed to bring together all sectors of society in a climate of complete freedom, but did not have the strength to establish priorities and make choices. Its main legacy was a very detailed constitution that entrenched the interests and demands of all voices, alongside hyperinflation, which froze the economy and increased social inequality.

After inflation was controlled in 1994, governability returned with the election of Fernando Henrique Cardoso in the same year. President Cardoso had a clear mandate to keep inflation under control, reorganise the public sector, and put the economy back to work. Economic stability led to significant gains for the poor, and government stability allowed for the implementation of long-range policies of macroeconomic reorganisation, including the privatisation of inefficient government owned companies, the closing of government owned banks, and a new fiscal responsibility law that restricted the freedom of state and local governments to borrow and spend. In this process, President Cardoso went against the interests of organised labour, particularly in the public sector. Government stability also allowed for significant (but still limited) policy improvements in education, public health, and other social sectors. The government was not immune from pork-barrel politics, but some key departments such as treasury, foreign affairs, and, to a lesser extent, health and education, were run by professional administrators and appointed specialists.

Cardoso was re-elected in 1998 and had to face a succession of international financial crises that forced currency devaluation, reduced the inflow of international investments, and led to economic stagnation. Public dissatisfaction resulted in the election of Luiz Ignacio Lula da Silva in 2002, who had suffered defeat in the three previous elections. Lula campaigned against the “neoliberal” policies of his predecessor, and promised to open the government to all sectors of society, with special places for the trade unions and social movements, and to end poverty. His probable election led to a severe crisis of confidence from the business sector on the future of Brazil’s economy, which was contained by Lula’s agreement to keep intact the macroeconomic stability achieved by his predecessor. The economy, however, initially did not react as expected, and the need to open space in government for all interest groups and social movements, in addition to the absence of clear policy orientations, led to poor levels of governability. A much heralded “zero hunger” programme, the main anti-poverty programme in the election campaign, was abandoned after the first year, three ministers of education and of health replaced each other in government, and no significant

proposals were put in place to deal with the country's growing problems around infrastructure, energy, and transportation.

Macroeconomic stability, however, combined with the expansion of international trade and the emergence of China as a major commodities importer helped the Brazilian economy start to grow again. The failed Zero Hunger programme was replaced by Bolsa Família, an ambitious conditional cash transfer programme that contributed to reduce extreme poverty and to keep the government's popularity at high levels. The economy started to grow again in 2004, and in 2006 Lula was re-elected for a second term, keeping his broad policies unchanged. The political alliance supporting him included social movements in the far left, traditional political bosses, and notoriously corrupt politicians, who all in turn were supported by widespread patronage and the distribution of public jobs. Despite several corruption scandals that forced Lula to replace his more articulate ministers and staff members with less known and less savvy supporters, corruption remained at high levels.

In 2010, a new presidential election was called. Lula was not legally allowed to run for a third term, but the combination of his personal prestige and resources to co-opt supporters was strong enough to nominate and elect his chief of staff, Dilma Rousseff, as the new president. The winds of international trade and foreign direct investment, however, were no longer favourable, and the electoral effort meant that the strict rules of macroeconomic stability had to be bent, including a gradual reduction of interest rates. The new government started in 2011 with an inherited cabinet occupied by political allies that had to leave after repeated corruption scandals had been raised by the press. The president, unable or unwilling to distribute patronage as her predecessor did, was subjected to successive defeats in Congress in important legislative initiatives related to the environment, the rules for the distribution of oil royalties, and revenue sharing among states and municipalities, among others. The government maintained and expanded the cash transfer programmes and, after much hesitation, decided to confront the statist ideologies of its supporters by proposing to privatise the administration of roads, ports, and airports. To keep the economy moving and unemployment low, several measures were taken to stimulate credit and reduce taxes for some sectors of the economy. In 2013, as inflation started to rise, interest rates started to grow again, although not enough to reverse the outflow of foreign investment. The growing deficit in international trade led to the devaluation of the Brazilian currency. In June 2013, hundreds of thousands of residents in the country's main cities went to the streets, at first protesting small increases in the cost of public transportation, and later expressing their general dissatisfaction with the economy, politicians, the bad quality of public services, and outlandish spending on soccer stadiums. For the first time since Lula's election in 2002, the approval rates of Brazil's president started to decline.

This brief story suggests that governability depends on favourable economic conditions, when benefits can be expanded and improved without the need to take them away from others; and on political legitimacy, which allows governments to implement policies that may displease specific sectors, to the benefit of the

majority. These two factors are not independent, since political legitimacy depends to a large extent on the public's perception that the economic conditions are good. The acid test for democratic governance is whether it can maintain its legitimacy in times of economic hardship. In well-established democratic societies, the legitimacy of institutions allow for governments to be replaced when they lose support, bringing in new actors with more legitimacy and authority to implement the policies that are needed. The situation is much more difficult if, as it seems to be in Brazil, the quality of institutions is low, and legitimacy is concentrated on the public image of the head of state.

A detailed analysis of fiscal policy, public expenditures, and industrial policies and their impact is beyond the scope of this paper, but it is clear that the favourable international scenario that existed until recently may not persist, making urgent the need to stop the expansion of taxes and expenditures, improve the quality and efficiency of the public service, and recover the governments' capacity to invest, all of which will provide better support and conditions for the economy to grow (Giambiagi, et al. 2004, Giambiagi 2009). The slack provided in the last several years by economic growth and the expansion of public expenditures led the Brazilian government to postpone reforms in social security, education, healthcare, environment protection, tax, and electoral legislation that could have prepared the country for future challenges. These reforms are likely to become still more difficult to implement in periods of hardship.

## INCLUSION, SOCIAL MOVEMENTS, AND EMPOWERMENT

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As we look at social change and the implementation of social policies in Brazil, a major question to consider is whether these changes take place because of the demands of the beneficiaries, or because they are implemented by governments according to their own vision of what was good (or good enough) for different groups in society. We might presume that since authoritarian regimes do not have to respond to social demands, they would tend to have less generous policies, while democratic regimes would be much more sensitive to society demands. On the other hand, since authoritarian regimes often get their legitimacy from plebiscitary politics and organised social movements, they may be more willing to go against vested interests and be more lavish in the distribution of social benefits, as happened in Venezuela among other places (Corrales and Penfold-Becerra 2007).

In principle, in a well-functioning democracy, social demands are articulated by political parties and turned into policy and legislation when the parties get elected. There may also be procedures for direct participation by citizens through recalls, ballots, citizen bills, and plebiscites, but they are exceptional. In practice, social policies are also shaped by organised lobbies and advocacy groups that work to influence public opinion, pass legislation, and work with governments and public agencies to support their policies. In principle, democratic governments should implement their policies according to the general interests of citizenship, while organised social movements, lobbies, and advocacy groups press for the fragmented benefits of their members.

In Brazil, programmes related to social security, health, education, and cash transfers are all implemented by government agencies, presumably according to the broad mandates politicians receive from their voters through regular elections. At the same time, a growing number of social movements and non-government organisations that campaign and mobilise public opinion are often called to participate in policy formulation and implementation in their areas of concern. It is also possible for the population to propose bills to Congress through petitions signed by at least 1 percent of the voting population.

In an industrial society, we expect the trade unions to play a major role mobilising society for the benefit of the poor. In Brazil, as in other developing societies, the unions are strongest among the workers in the more developed sectors of the economy and exclude those in the informal economy. The first labour unions in Brazil were organised early in the twentieth century by Italian and other immigrants working in the new heavy industries in Rio de Janeiro and São Paulo. Many of the early founders were anarchist and communist ideologues (Dulles 1973). These early unions were replaced after 1930 by an official union system based on Italy's notion of a corporatist state where workers and employees would be members of formal associations under the supervision of the minister of labour, a system that remains more or less unchanged since then (Schmitter 1968).

The unions and union federations, are financed by a tax of one day's salary of every employee in the country (the 'union tax') and do not depend on active affiliation to represent the workers in their territories. Employers and employees are entitled to negotiate salaries and working conditions within the limits established by the government, and a separate court system was created to deal with labour disputes. This system allowed for the establishment of a clique of well-paid union leaders who worked closely with the government and who, at the end of Getúlio Vargas dictatorship in 1945, organised a political party, the Brazilian Workers' Party (PT), which was part of the dominant political alliance in Brazil until the 1960s (Schmitter 1968). The Brazilian president ousted by the military in 1964, João Goulart, used to be the minister of labour and had close ties with the union's bosses, which at the time had been infiltrated by militants from the illegal but active Communist Party.

The military regime moved against the union leaders, but did not change the union legislation. President Lula started his political career in 1978 as a leader of the metalworker's union (which represented the workers in the automobile industry) presenting himself as representing a "new syndicalism", more pragmatic, and in favour of eliminating the union tax used to finance and keep the unions under government control (Rodrigues 1999, Moisés 1982). Later, however, he re-established the alliance with the old PTB party, granting them control of the Ministry of Labour and supporting legislation allowing them to use the union tax without the oversight of the Accounting Office. By then, the industrial unions, which used to be the largest and more militant unions, had lost ground to the unions of public employees, although the metalworkers' unions remained strong and influential (Cardoso 2001).

Since the victory of the Workers' Party (Partido dos Trabalhadores, or PT) in the presidential election of 2002, the inclusion of social movements and organisations in policy formulation increased significantly, together with the creation of a large number of citizens' councils in different sectors such as health, education, child protection, environment, and economic policymaking. Some agencies, such as the National Indigenous Foundation (FUNAI), the National Secretary for Affirmative Action (SAPPIR), and the Ministry of Agrarian Reform, are usually staffed with members of related social movements. The National Union of Students, an independent organisation, works closely and is supported by the government through different types of grants and subsidies. In some cases this arrangement has led to conflicts within the government, as happened, for instance, in the Ministry of Environment, which opposed the construction of hydroelectric dams in the Amazon basin (Fearnside 2003); the Ministry of Agrarian Reform, which supported land invasions by militants of the Landless Workers Movement (Romig 2006); and with FUNAI about issues of the demarcation of territories for indigenous populations (Fisher 1994).

As part of the same trend, several municipalities experimented with participatory budgeting (Baierle 2009) and the notion that direct democracy could replace the traditional forms of representative government became popular, and has been reinforced over online social networks. The actual impact of this trend on the improvement of social inclusion and the reduction of poverty and inequality is unclear and subject to intense ideological controversy. There is a growing literature that suggests that the original expectations of this arrangement were probably too high (Cohen and Fung 2004, Cornwall 2007, Frey 2003, Wampler and Avritzer 2004). A 2001 survey of grassroots movements in Chile and Brazil, carried out by the United Nations Research Institute for Social Development, showed that as these social-movement organisations became dependent on government or international funding for their survival, they tended to decline:

"the grassroots organizations may simply deliver social services for the state (health and educational reform in Chile), or be split and demobilized by bureaucratic infighting (health reform in Brazil). In all cases a closer involvement with state agencies has left the organisations exposed to clientelist controls and political bossism. Grassroots organisations across Latin America cannot survive now without state funding. But the price is often a loss of their capacity to maintain a critical stance or promote alternative development projects. With or without the state, they are increasingly preoccupied with their own financial survival, often to the detriment of the constituencies they are meant to serve. Many organizations disappear, and grassroots leaders leave to work elsewhere" (Foweraker 2001).

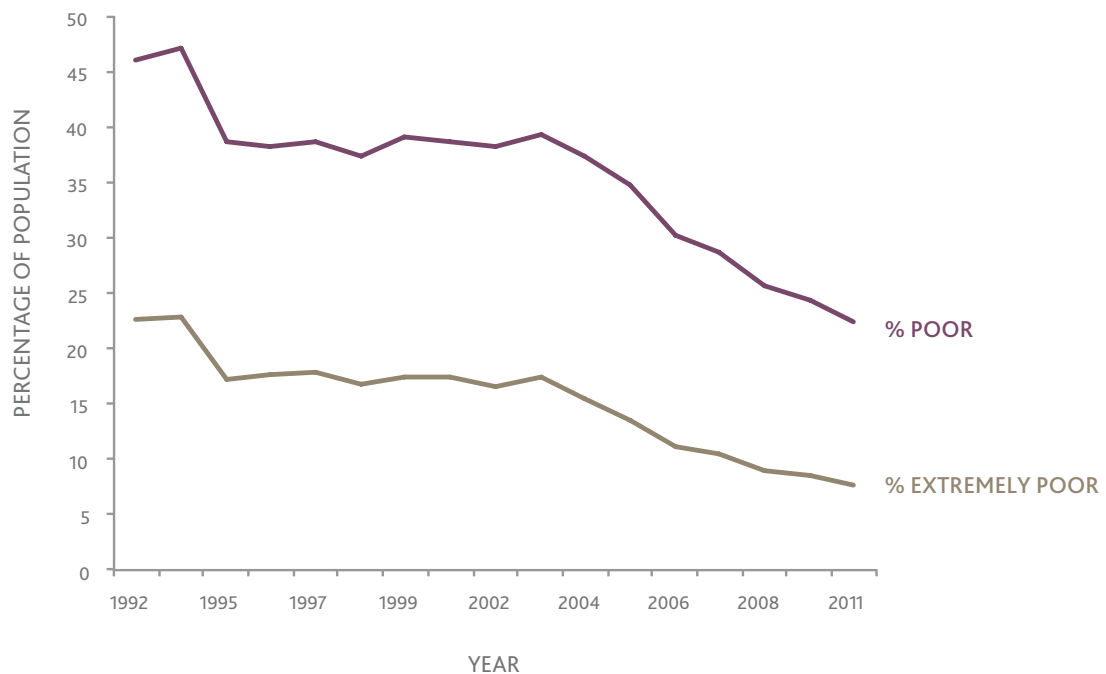
At the same time, the extraordinary street demonstrations that occurred in Brazil in June 2013, following similar manifestations in Chile and other parts of the world, show that modern democracies should learn how to combine the broad legitimacy gathered through regular elections with the pressing and short-term demands of highly visible and vocal social movements. There are no easy solutions to this, but it seems clear that legitimate and transparent systems of political representation are part of the answer.

## The Achievements

### THE EVOLUTION OF POVERTY AND INEQUALITY IN THE LAST 20 YEARS

FIGURE 1. BRAZIL POVERTY LEVELS 1992-2011

SOURCE: (IBGE 2011 AND PREVIOUS YEARS)



The actual levels of poverty inequality and its evolution through time vary according to the way they are measured, but the general trends are clear. Figure 1 presents the evolution of the main data on poverty. Extreme poverty is defined as an income level that is below what is needed to purchase the minimum caloric needs of an individual; the poverty line is defined as twice this minimum. The first important reduction in poverty in Brazil took place with the stabilisation of the economy in 1994, the Plano Real, which ended a long period of intense inflation that had been particularly hard on the poor. The second period of poverty reduction dates from 2002, when the economy started to grow more rapidly and several policies to deal with poverty and social inequality were strengthened and implemented.

FIGURE 2.

SOURCE: DATA FROM THE BRAZILIAN INSTITUTE FOR GEOGRAPHY AND STATISTICS, NATIONAL HOUSEHOLD SURVEYS (IBGE/PNAD), SEVERAL YEARS.

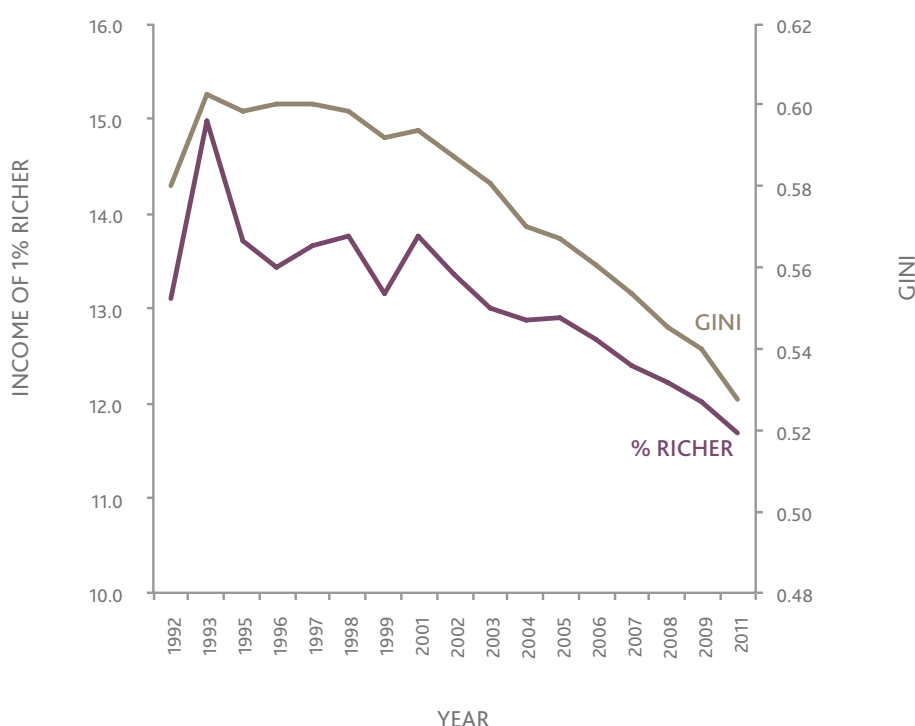
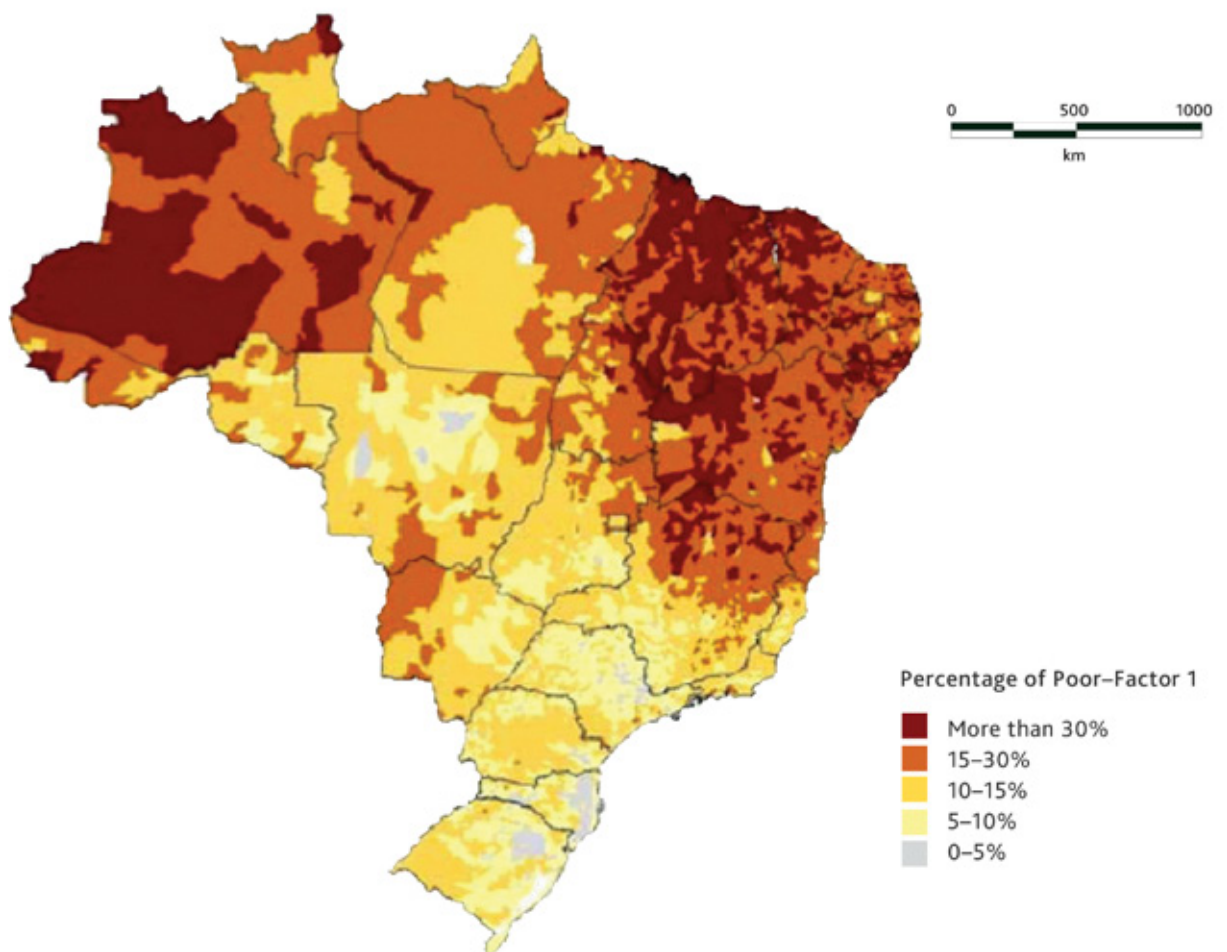


Figure 2 presents data on income inequality, showing again the impact of the stabilisation programme in 1994 as well as the gradual reduction in income inequality since the late 1990s. One indicator, the proportion of revenues in the hands of the richer 1 percent of the population, reached a peak with hyperinflation in 1993 at 15 percent, and went down to 11.7 percent in 2011. The Gini Index (a measure of statistical dispersion that represents the income distribution of a nation's residents went down from 0.60 to 0.53, better than South Africa, but much less than India and far from the 0.30 that is typical of European countries. Poverty is also regionally distributed, and is much more intense in the Brazilian Northeast (where the old sugar plantations have dominated since colonial times) and in the Amazon region, than in regions of more recent migration and economic development in the Southeast, South, and the new frontier states of the Centre West. Figure 3 gives estimations of the percentage of poor families (based on their ability to acquire the minimum required calories for their maintenance) in Brazilian municipalities in 2002–03; darker areas are municipalities with more than 30 percent of the population in poverty; lighter areas are municipalities with 5 percent or less.

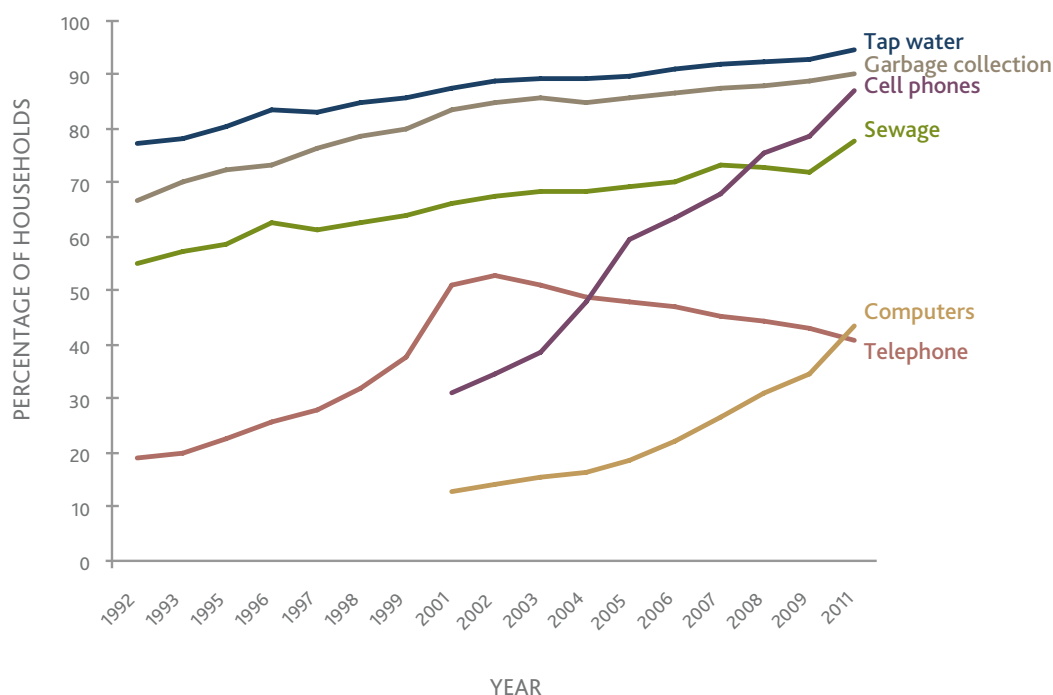
FIGURE 3. PERCENT OF POOR POPULATION BY MUNICIPALITY  
SOURCE: (SILVEIRA, CARVALHO, AZZONI, CAMPOLINA, AND IBARRA 2007)



Changes in poverty levels were associated with important improvements in indicators such as infant mortality; life expectation; and access to education, services, and consumption goods. The average number of years of education for the population grew from 4.8 in 1992 to 7.4 in 2011, while access to school for children up to 12 years reached almost 100 percent by the year 2000. Most dwellings have tap water and garbage collection services (although only 50 percent are connected to sewage treatment plants), cell phones are becoming universal, and access to computers is already close to 45 percent (see figure 4).

FIGURE 4.

SOURCE: DATA FROM THE BRAZILIAN INSTITUTE FOR GEOGRAPHY AND STATISTICS, NATIONAL HOUSEHOLD SURVEYS (IBGE/PNAD), SEVERAL YEARS



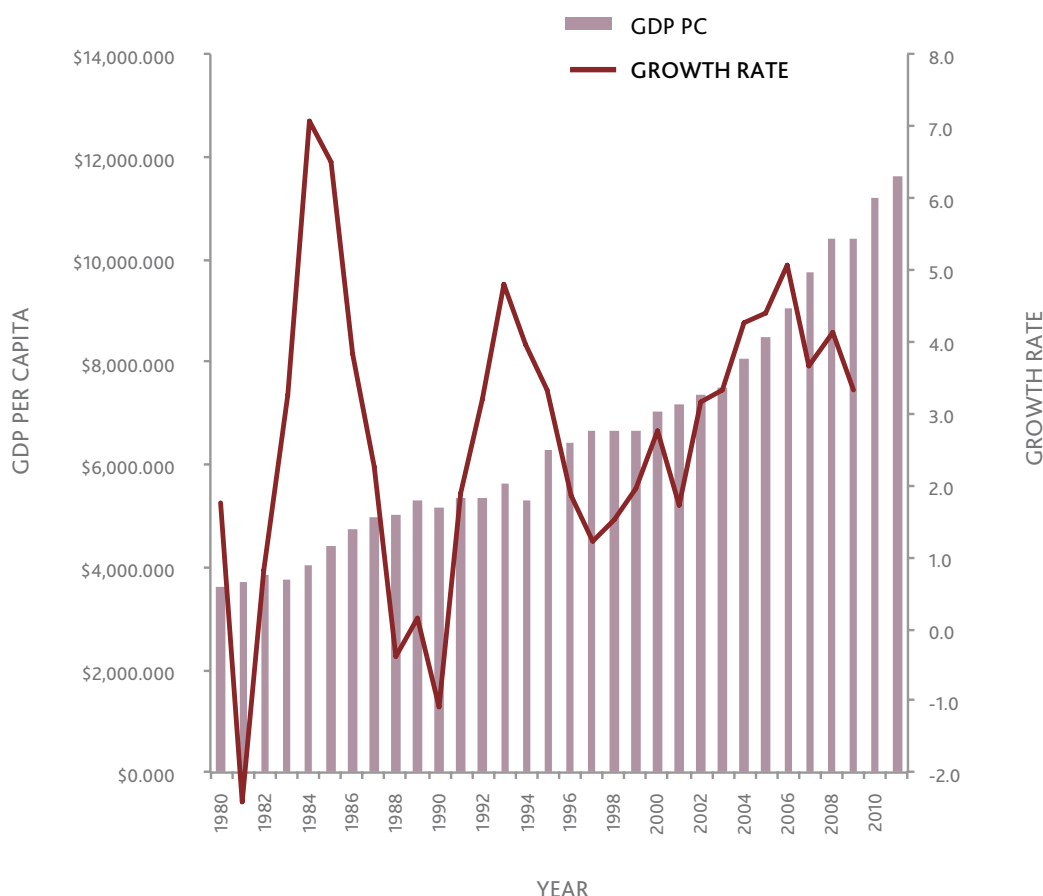
We can explain these trends by a combination of four main sets of factors: economic growth, broad social processes, changes in the labour market, and specific social policies.

## ECONOMIC GROWTH

Figure 5 gives the main figures on Brazil's economic growth. In the 1970s, Brazil's economy grew at a very high rate, benefiting from expanding fiscal revenues, heavy investments by the public sector, and the availability of international credit, which for a while protected the country from the effects of the oil shock of 1973. After the second oil shock of 1979 and the debt crisis of the 1980s, economic growth stopped and the country entered a period of spiralling inflation that lasted until the mid 1990s when the stabilisation plan that introduced a new currency, the Real, also brought public expenses under control. The combination of a stable currency and a more open economy led to significant improvements in poverty and income inequality. However, successive external shocks, including the Mexican debt crisis of 1994, the Asian crisis of 1997, and the Russian crisis of 1999, did not allow the economy to grow more than approximately 2 percent a year on average. Growth

FIGURE 5.

SOURCE: DATA FROM PENN WORLD TABLE VERSION 7.1, NOVEMBER 2012



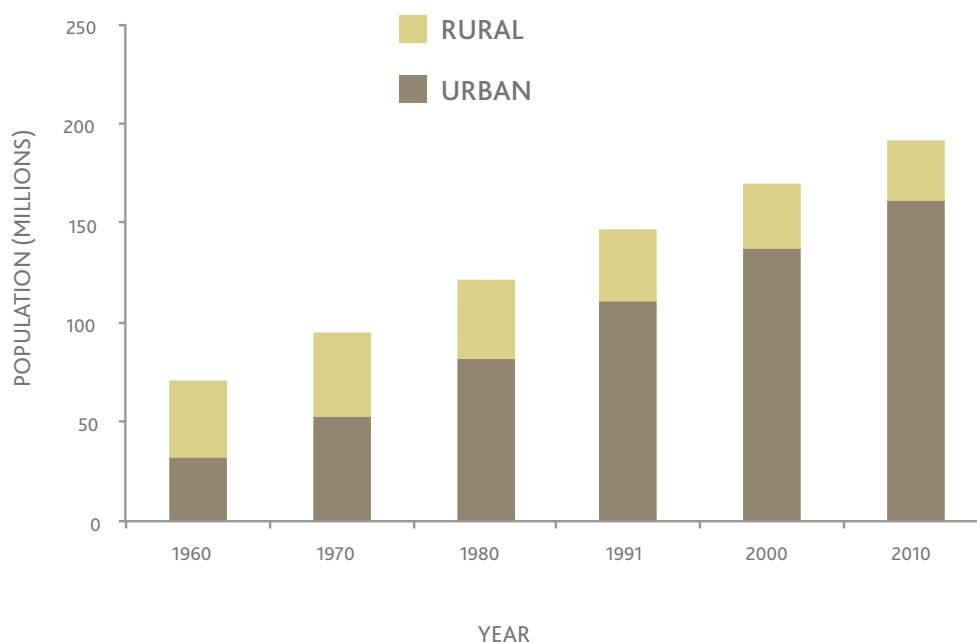
accelerated after 2003 to an average rate of around 4.5 percent thanks to the expansion of the international market for commodities, economic stability, and foreign investments. Since 2009 the country has again suffered from the impact of a global recession, with a negative growth of 0.3 percent that year, a recovery of 7.5 percent in 2010, 2.7 percent in 2011, and a dismaying 0.9 percent in 2012.

### BROAD SOCIAL TRENDS: URBANISATION AND FERTILITY

In the fifties and sixties, Brazil's urban population grew at more than 5 percent a year, largely because of very intensive migration from rural areas, and also because of a high birth rate—the population as a whole was growing close to 3 percent a year. Since the eighties, both the birth rate and internal migration have gone down. By 2010, 15.7 percent of the population lived in rural areas, and the yearly rate of population growth was reduced to 1.7 percent. The fertility rate today is similar to that of European countries—below reproduction levels—and the population is gradually aging.

FIGURE 6. POPULATION GROWTH IN BRAZIL, 1960-2010

SOURCE: NATIONAL CENSUS, BRAZILIAN INSTITUTE FOR GEOGRAPHY AND STATISTICS (IBGE)



As millions of people moved from depressed rural areas to the expanding urban centres, poverty indicators improved thanks to access to urban employment, particularly in the construction business; to services such as tap water and public schools; and to the availability of household goods such as radios, TV sets and refrigerators. With all its shortcomings, life in urban shanty towns around São Paulo, Rio de Janeiro, or Belo Horizonte offered better conditions than the extreme poverty in the semi-deserted areas of the rural Brazilian Northeast. As noted in the Global Monitoring Report, cities can reduce poverty in two main ways: through the benefits of agglomeration where potentially higher living standards can be generated for all their residents; and through the benefits of scale economies, where public services can be provided in urban areas at a lower fixed unit cost. Cities are also a source of revenues that governments need to foster agglomeration economies for firms and households, and to finance services for rural and urban migrants (The World Bank 2013).

## Policies

### CHANGES IN THE LABOUR MARKET AND WAGES POLICY

Table 1 presents the breakdown of Brazil's workforce in 2011 according to types of employment. About half of the workforce have regular employment or work as employees; the other half is self-employed (21 percent) or work in informal jobs or those with no monetary income.

TABLE 1. BRAZILIAN WORKFORCE, 2011: TYPE OF OCCUPATION AND MEAN INCOME

SOURCE: BRAZILIAN INSTITUTE FOR GEOGRAPHY AND STATISTICS, NATIONAL HOUSEHOLD SURVEY (IBGE/PNAD), SEPTEMBER 2011

BRAZILIAN WORKFORCE, 2011: TYPE OF OCCUPATION AND MEAN INCOME			
	Number of persons	Percent of the workforce	Mean income(*)
Formal employment	36,232,559	38.8%	1,270.49
Self employed	19,664,887	21.0%	1,153.00
Informal employment	14,015,804	15.0%	736.70
Civil servant	6,470,257	6.9%	2,288.89
Domestic worker, informal	4,614,294	4.9%	329.16
No monetary income	3,199,895	3.4%	0.00
Employer	3,175,757	3.4%	4,020.00
Working for their own consumption	3,752,585	4.0%	0.00
Domestic worker, formal	2,038,644	2.2%	582.43
Military	220,399	0.2%	2,303.69
Construction worker for their own use	107,986	0.1%	0.00
<b>TOTAL</b>	<b>93,493,067</b>	<b>100.0%</b>	<b>1,303.00</b>
(*) The legal minimum wage in September 2011 was 545 reais. The exchange rate was 1.7 reais per US dollar.			

To be formally employed in Brazil means to work in a firm that is legally registered and pays its taxes, and being therefore entitled to social security benefits. Besides a monthly salary, that has to be at least equal to the national minimum wage, the employee is entitled to an additional month's salary at the end of the year, 30 days of paid vacation, eight working hours a day and the weekend off. One of the main costs of formal employment is the social security contribution, about 20 percent of the salary, equally divided between employer and employee. In addition, the employer contributes 8 percent of the salary to another fund that can be used on special occasions by the employee or if they become out of work. There are additional costs if the employee is fired, and several other smaller

taxes. In all, the estimation is that the total cost for formal employment is about twice the contracted nominal monthly salary. Higher salaries are also subject to income tax that the employer deducts on behalf of the revenue service authorities. To comply with all the legal requirements the firms need to hire a professional accountant and are subject to regular inspections by labour and tax agents from the national, state, and local governments, any of which may eventually demand bribes to dismiss real or fictitious irregularities.

Because of the bureaucratic difficulties, costs, and the time needed to start a business, Brazil ranks 130th out of 185 countries in the World Bank's 2013 ease of doing business index (International Finance Corporation and The World Bank 2013). For a small firm, the combination of costs, time, and legal requirements can be forbidding, and many small entrepreneurs prefer or are forced to remain informal. To deal with this problem, legislation adopted in the mid '90s and perfected since then allows for firms to be registered under a simplified procedure if their annual gross revenue is US\$1.5 million or less. In 2011, there were more than 5 million firms registered under this simplified procedure, out of a total of 6.1 million.

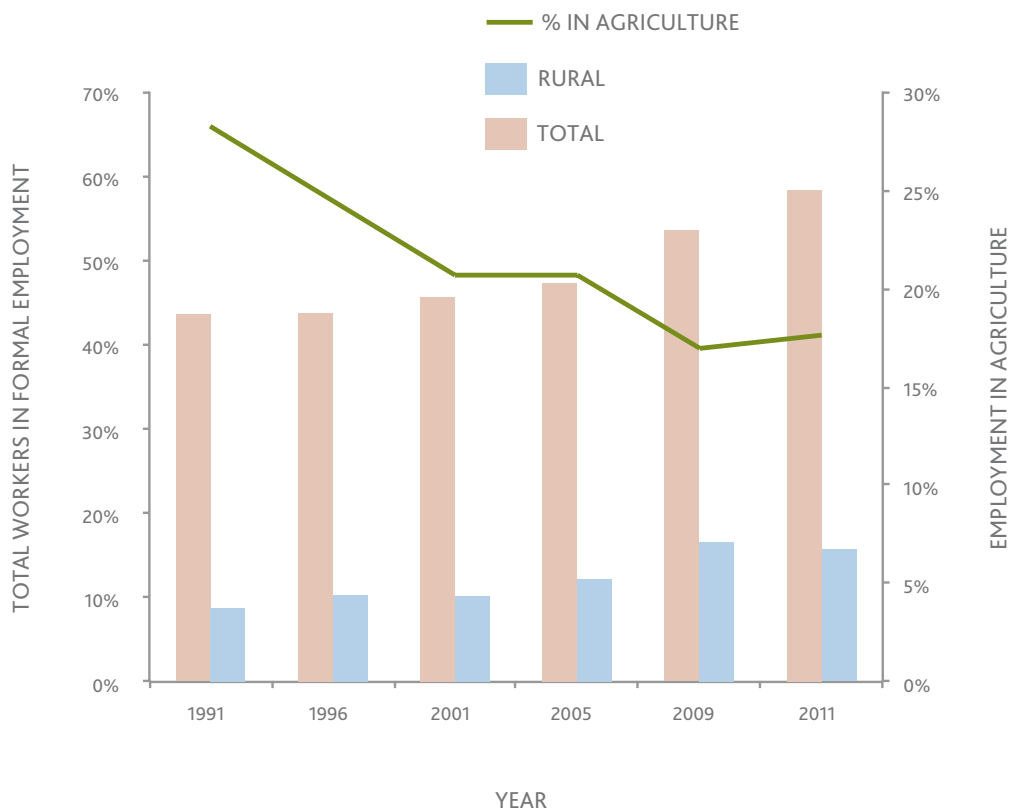
For individuals working autonomously and earning up to US\$20,000 a year, recent legislation allows them to register as individual entrepreneurs at no cost and also allows them to enrol in the social security system, with the benefit of receiving a minimum wage stipend in case of illness or retirement. In 2013 there were 3.3 million registered individual entrepreneurs, compared with 42 million persons with formal employment (Ministério do Desenvolvimento 2013). In 2011 the government decided to exempt the footwear, garment, furniture, and software sectors from paying the 20 percent contribution to the social security system, and to instead place a tax on their overall revenues. This was announced as a way to improve the ability of these sectors to better compete internationally, at an estimated cost of R\$2.5 billion (US\$1.5 billion) in two years. It is not clear whether this policy will reduce the cost of the products these firms manufacture, or increase their ability to hire more people, or if it will simply increase their profits.

Over time, the size of the informal sector in the Brazilian economy is shrinking. In 1991 only 44 percent of the Brazilian workforce contributed to social security and was entitled to its benefits; in 2011 it was 58 percent. Part of this improvement was due to the reduction of agricultural jobs where informal contracts are still the rule.

Many analysts consider the existence of a legal minimum wage as a strong limitation to the increase of formal employment, since it puts the cost of manpower above what the market would allow, particularly for small firms and for the employment of workers with no professional qualifications. The actual value of the minimum wage in Brazil was strongly reduced in the 1980s because of inflation, but this has increased systematically since the mid 1990s, and has surpassed its value of the 1970s (see figure 8). Currently, legislation requires that the minimum wage should increase every year in real terms according to the growth of the national GDP of the previous two years in real terms. In early 2012, for example, the minimum wage had increased by 13 percent, compared with less than 4 percent growth of GNP in 2011, stimulating inflation and increasing the public deficit. In 2013, Brazil showed a 0.9 percent GDP growth, contrasting with an increase of 4.5 percent in the minimum wage.

FIGURE 7. PERCENTAGE OF WORKERS IN FORMAL EMPLOYMENT

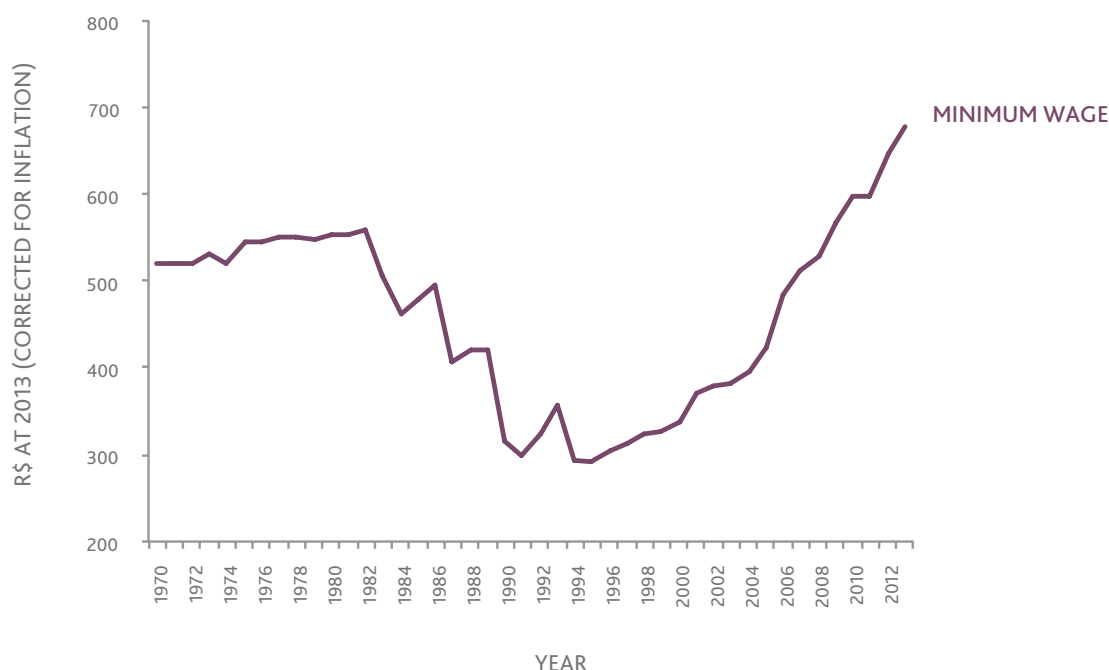
SOURCE: DATA FROM THE BRAZILIAN INSTITUTE FOR GEOGRAPHY AND STATISTICS, NATIONAL HOUSEHOLD SURVEYS (IBGE/PNAD), SEVERAL YEARS



The actual impact of the minimum wage on employment and informality in Brazil seems to be smaller than expected. In 2009, only 10 percent of the population received a minimum wage for their main working activity, with 26 percent receiving less. Still, increases in the minimum wage have a strong impact on public finances, since most retirement and other benefits paid by all levels of government are established in relation to the minimum wage. A detailed econometric analysis for the 1982–2000 period concluded that “an increase in the minimum wage strongly compresses the wages distribution with moderately small adverse effects on employment” (Lemos 2004). More specifically, Lemos found that an increase of 10 percent in the minimum wage decreased the number of jobs by at most 0.05 percent, but increased total employment (via increase in the number of hours worked) in the short run. This combination of increased minimum wages, increased formalisation, and increased real salaries for the poorer

FIGURE 8. MINIMUM WAGES 1970-2013 CORRECTED FOR INFLATION  
(VALUES IN 2013 R\$)

SOURCE: IPEADATA



population can be explained by the robust economic growth up to 2008, but it is not clear this will remain the same as the economy enters a more difficult period.

## BRAZIL AS A WELFARE STATE

In the 1930s under the authoritarian regime of Getúlio Vargas, Brazil started to introduce some elements of a welfare state and of social rights, limited initially to urban dwellers. From the beginning, the system included retirement benefits and healthcare for those regularly employed, based on the taxes paid by the firms who employed them, the rights of union organisation, and wage bargaining. However, all this was under close supervision of the central government. The rights to public education and healthcare were also introduced but took several decades to start to materialise. Only in 1969, again under an authoritarian military regime, were the benefits of social security extended to the rural sector. In 1988 a new constitution, written after the re-establishment of democratic rule, extended the rights of social security, healthcare, and education to the whole population, under the responsibility of the state.

## SOCIAL SECURITY

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The most expensive and complex social programme was and still is the national social security system providing retirement benefits and pensions to the population. In the beginning there were six different social security funds for different segments of the economy (industrialists, maritime workers, commerce workers, bank workers etc.) as well as for civil servants, providing retirement and healthcare according to the revenues generated in each sector. In 1966 all of the funds (except those for civil servants) were unified into a national system, and a separate national unified system of healthcare was established. Equity increased, but the links between revenues and benefits were broken, with the government having to use general tax resources to cover the growing deficits (Malloy 1979).

Today, the cost of Brazil's social security system (apart from health) amounts to 11.2 percent of the national GDP, including 7.2 percent for 24.3 million people under the unified system for the private sector, 2 percent for about 1.1 million in the federal public service, and about 2 percent spent by states and municipalities to pay for the retirement of approximately 2 million of their own employees. To pay for the 9.2 percent of the GDP under its responsibility, the federal government collects 6.1 percent in contributions, generating a deficit of 3.1 percent that is paid from general taxes (Nicholson 2007, Souza 2011). Men can retire after 35 years of work, women after 30 years, and schoolteachers after 25 years, irrespective of age. Retirement payments for the general population are at least equal to, but can be up to seven times, the minimum wage (between US\$340–US\$2,300 at the current exchange rate of \$R1.6 per US\$1). Civil servants retire with full salaries, and widows and orphans inherit most of the benefits of their spouses, partners, or parents, regardless of whether they work or have other entitlements.

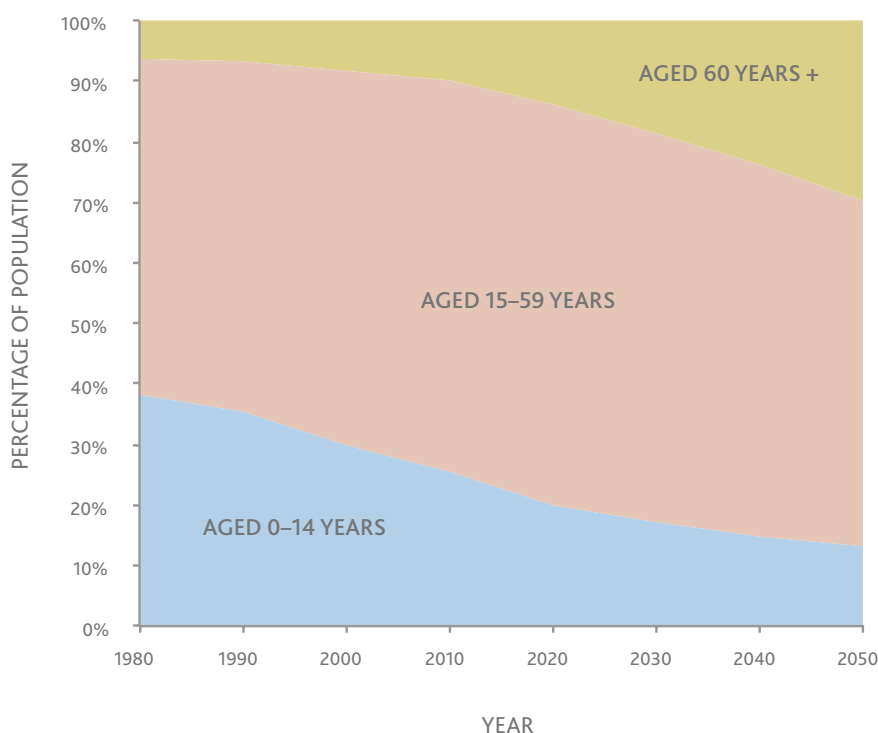
Retirement benefits apply only to those who hold formal employment and contributed regularly to the social security system for a number of years. To care for those in the informal sector, the current legislation grants a retirement benefit of one minimum wage a month at age 65 for those considered poor. The same benefit is given for those working for 15 years or more in rural activities, for whom the retirement ages are 60 for men and 55 for women, regardless of previous contributions to social security. It is estimated that there are 3.5 million people receiving the former benefit and another 8.1 million receiving the latter at a cost of 2.1 percent of GDP (Souza 2011).

These benefits were conceived in a time when the country's population was young, but are untenable in the long run given the rapid changes in Brazil's age composition and the increase in life expectancy. Today, 10 percent of the population is aged 60 or older; in 2020, it will be 14 percent, and in 2050, 19 percent (see figure 9). An amendment to the legislation from the 1990s has been adopted to deal with the structural imbalances of the general social security system. Under the new legislation, the value of the retirement benefit varies according to years of contribution and life expectancy, encouraging workers to postpone their retirement. The introduction of the new legislation mitigates, but does not eliminate, the structural imbalances of the general social

security system. Even if we take into account the current age structure, pension costs are extremely high. A recent comparative study (Rocha and Caetano 2008) found that pension spending in Brazil is equivalent to that of a country with much older inhabitants. Countries with a similar demographic structure spend about 4 percent of GDP on pension costs, while countries with comparable levels of pension spending have a proportion of elderly people three times as high as Brazil's. Tafner and Giambiagi estimate that, over the next fifteen years, following the aging population, public spending on pensions will grow at an average rate of 4.5 percent per year (Tafner and Giambiagi 2011).

FIGURE 9. AGE COMPOSITION OF BRAZILIAN POPULATION, 1980–2050

SOURCE: (SOUZA 2011, P. 127)



Another issue is the high retirement benefits paid to civil servants. The mean value for this in 2011 was R\$3,889 or US\$2,530, compared to US\$1,303 for the general population. Legislation was introduced to deal with this issue and unify the two sectors, limiting the benefits for the civil service to the same level as that of the general population, and creating a voluntary system of complementary benefits based on additional contributions. This system, however, applies to new civil servants, and there are significant transition costs associated with the short-term reduction of mandatory contribution of civil servants to the general social security budget (Caetano 2011).

A third issue is the regressive nature of the benefits. In general, retirement benefits are larger for persons from higher income brackets (Barros, et al. 2007, Barros and Foguel 2000). Programmes directed at poor people of retirement age have a significant impact in the reduction of poverty for this segment, but poverty in Brazil is higher among children living with younger parents, who do not benefit from this support. Finally, the growing deficit of Brazil's social security system, associated with the changes in demography, means that a growing part of the current cost of this system will be transferred to the younger generation (Turra 2000).

## CASH TRANSFER PROGRAMMES

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Bolsa Família, a conditional cash transfer programme for poor families, started in Brazil in several municipalities in the 1990s and was later transformed into a national programme. In 2003 it became the flagship social programme of Luis Ignácio Lula da Silva's government. It was conceived initially as a programme to provide poor families with an incentive to send their children to school, but later included other existing incentives in a unified system.

The amount transferred to the families is small, depending on their level of poverty and number of children. Every family earning less than R\$70 per capita is eligible to collect the benefit, plus every family that has at least one child and earns less than R\$140 per capita. The benefit varies from R\$36–R\$306, according to the number of children in a family, resulting in a mean monthly income of R\$155, about US\$80. A poor family with one child would earn just R\$36. As of today, approximately 13 million families benefit from the programme, corresponding to about 52 million people, or 27.5 percent of the country's population. In spite of its large size, the programme costs only about 0.5 percent of the country's GDP, compared with 11.2 percent spent on social security, 8.8 percent on public health, and approximately 5 percent on public education.

Local municipalities are responsible for identifying the beneficiaries and monitoring their compliance with the programme, but money is delivered directly by the national government through the banking system, preferably to the woman responsible for the family. The payments can be cashed with a magnetic card. The targeting of the programme is reasonable, especially in rural areas and in states with a lower income. The estimation, based on 2006 data, was that 70 percent of beneficiaries are poor, even though 43.7 percent of eligible people don't benefit from the programme. It is important to mention that the strictly monetary concept of poverty used by the programme benefits rural populations, for example, to the detriment of those living on the outskirts of large cities, whose nominal income may be higher, but where the cost of living is higher too.

Income transfers through the Bolsa Família are supposed to be conditional to specific behaviours, but other effects beyond income, associated with the programme's conditionality system, are small (Souza 2011, Cardoso and Souza 2003). One estimation (Glewwe and Kassouf 2012) is that the Bolsa Família programme increased school enrolment in grades 1–4 by about 2.8 percent in its initial years and by about 5.5 percent in the long term (after three years). The

programme may have also reduced the drop-out rate for children in grades 1–4 by about 0.3 percentage points in the first year and by about 0.55 percentage points in the long term (after two years), and increased the grade promotion rate by about 0.5 percentage points after one year and by about 1 percentage point in the long term (after two years). Since only about 43 percent of Brazilian children are eligible to participate in the programme, the impacts on these education outcomes for the target population (poor families) is arguably at least twice as high as these estimates suggest they are for the population as a whole.

One reason for this modest impact is that school attendance was already high in Brazil for children up to fourteen years of age (97 percent according to the Brazilian 2001 National Household Survey—PNAD). Beyond this age, school absenteeism is more related to the failings of schools than to the need of the students to work (Schwartzman 2005). This is not a peculiarity of the programme in Brazil, but has been observed in several other countries with similar programmes (Reimers, et al. 2006). In other sectors, no significant improvement has been observed in the use of healthcare services for children and pregnant mothers by those receiving Bolsa Família benefits.

The main virtue of the programme is that spending actually benefits the poorest people, in contrast to policies for welfare, health, and education that are regressive and benefit mostly the middle and upper sectors of Brazilian society. Another virtue is its simplicity: with modern computing resources and the use of banking networks, funds can be transferred directly to those in need without the interference of local politics, and results can be monitored by the use of registration information generated during the implementation process. As well as this, cash transfer programmes are very popular with the electorate and are an important source of political allegiance.

Due to these advantages, a new generation of income transfer policies has emerged. For example, Cartão Família Carioca (CFC) is a municipal project launched in 2010 in Rio de Janeiro to complement Bolsa Família. The benefit, on average, is R\$70 per month, targeting families earning less than R\$108 per capita. To receive the benefit, families have to be enrolled in Bolsa Família. Perhaps the most interesting aspects of this programme are the financial incentives related to education and the concept of poverty adopted. Since over 110,000 children who benefit from CFC are studying in municipal schools, the government adds extra incentives for children to perform well at school. As of 2011, the presence in school meetings of parents who receive the CFC benefit programme has reached 71 percent, while the rate for those who do not receive it is only 30 percent. The frequency of this attendance at school meetings is also bigger among those receiving the benefit (93.2 percent as opposed to 91.4 percent).

The concept of poverty adopted for the CFC takes into account not only the declared monetary income of a family, but also their ownership of goods and assets. This way, families are selected according to their estimated income, as opposed to their declared income. Such innovation intends to improve the targeting of Bolsa Família based on a family's overall wealth. In addition to monetary benefits, the CFC gives preference to beneficiaries in early-childhood

education programmes. They have priority on waiting lists for day-care centres and, in the absence of vacancies, are served by the Comprehensive Childhood Programme. This programme offers classes on Saturdays for children and lectures for the parents on important topics of child development.

In 2012, President Dilma Rousseff launched a programme called Brasil Carinhoso (Caring Brazil). The goal of it is to lift families with children up to the age of six out of extreme poverty, through a combination of cash transfers, an increase in the availability of places in nursery schools, and the distribution of vitamins and drugs to treat conditions such as asthma. The programme is estimated to benefit 2 million families. Each one of them will receive a minimum income of R\$70 per person, as long as they are living in extreme poverty and have at least one child up to the age of six. As of 2012, Brasil Carinhoso and Bolsa Família together were responsible for over R\$20 billion transferred to low-income families, a 19 percent increase from 2011.

All these programmes use the unified registry of recipients of Bolsa Família created by the Ministry of Social Development. The municipalities, according to estimations provided by Brazil's statistical office, draw up the lists of names. Thus, the quality of the targeting depends on the completeness and reliability of the registry. To encourage good practices, the Ministry of Social Development has created a decentralised management index (IGD) that gives municipalities financial incentives for high-quality registration processes. The ministry also tries to assess to what extent the families who are receiving the benefits are making use of health services and education they are being given access to.

In both cases the analysis of the available evidence is not encouraging. As the authors who analysed the data conclude, "IGD has registry problems, which can lead to perverse incentives for municipalities to register only the successful cases. This makes the structural aspects of the Bolsa Família unreliable and reduces the possibility of adequately measuring the ability of municipalities to ensure compliance with the conditional requirements provided, especially those related to health" (Estrella and Ribeiro 2008).

It is possible to summarise the impact of Bolsa Família by stating that it has been a great political and public-relations success, bringing strong support to government candidates in elections in the poorer regions in the country; a moderate success in providing additional cash to poor families, thus helping to reduce poverty and income inequality; and mostly irrelevant in improving the education, health, and labour conditions of the population. Perhaps because of the small amounts involved, the programme does not have the negative effect of discouraging recipients to work (except, to a limited extent, by allowing mothers more time to stay with their children). There is no discernible 'exit door' for poor families benefiting from Bolsa Família, if by that we mean making the recipients able to improve their qualification and find more stable and better-paid jobs. For this, it would be necessary to look at the education system and, more broadly, to the economy.

Since the amounts transferred to the families are small, the impact of the Bolsa Família programme on poverty and inequity is observable, but not very large.

Analysts attribute the recent improvements in the income of the poorer population of Brazil to two factors of similar weight: increases in revenues from work and increases in revenues from different types of transfers (both from the general social security system, corresponding to about 26 percent of the increase, and the Bolsa Família programme, 13 percent of the increase). In addition, there are estimates that Bolsa Família contributed to a 15 percent reduction of people living in extreme poverty and 35 percent in the reduction of the poverty hiatus between the poor and the very poor, because as the income of the very poor increased, inequality was reduced (Barros, et al. 2010, Barros, et al. 2010, Souza 2011). It is estimated that in the poorer northern and northeastern states, income transfers were the driving force behind half of inequality reduction. In the richer states of the South, Southwest, and Centre West, their contribution to the reduction in inequality was 24 percent on average; in these areas labour income was the driving force behind inequality reduction (Soares and Sátyro 2009).

## HEALTH

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In the old system of multiple social security institutes, healthcare was provided for free to those affiliated to each institute, leaving most of the population unprotected. The 1988 Constitution established the principle that healthcare was a universal right and an obligation of the state, to be supported with public funds through a unified healthcare system. The interpretation was and still is that everybody is entitled to free medical care according to the best possible standards. This has created a problem of escalating costs that is not likely to be resolved in the current legal framework (Medici 2011).

In practice, Brazil has made significant progress in the area of preventive health, providing inoculation against the most common diseases and creating a growing network of primary healthcare services that has been effective in reducing infant mortality and increasing life expectancy for the whole population. The most important precautionary health measures are the vaccination campaigns and Programme Saúde da Família (PSF).

Created in 1994, with a strategy of reshaping health treatment in Brazil, PSF focuses on the prevention of diseases and the educational orientation of families towards health. As of 2012, more than 32,000 teams have been put together, spread across most of the country. As of 2005, the total cost of the programme was over R\$2.5 billion. Municipalities that have been taking part in the programme for three years have reduced their average infant mortality in the order of 1.55 per thousand more than those that are not taking part. For children between one and four years of age, the mortality rate was reduced by 6.4 percent for the same municipalities or 25 percent for those that had been in the programme for eight years or more (Rocha and Soares 2008).

Brazil also has one of the most effective and extensive programmes of prevention and treatment of HIV/AIDS anywhere. As a result of these programmes, infant mortality rates went from 46 per thousand to 13.9 per

thousand between 1990 and 2011 for children under one year of age, while life expectancy went from 66.3 per thousand to 73.4 per thousand (World Bank 2011). Unfortunately, dengue, yellow fever and other diseases are coming back and so far have been impossible to control.

The goal of universal and free medical care remains elusive, in spite of growing public expenditures. Free medical attention is scarce and unevenly distributed; those who need it have to face long lines and waiting periods, and very often do not get the attention and care they need. For those who can pay, there is a large sector of private insurance and medical services. The estimation for 2006 was that Brazil was spending 8.8 percent of GDP on health, of which 57 percent was private and 43 percent public. Most private health-insurance plans do not cover highly complex and extended attention, and those who can afford a lawyer can go to court and claim their constitutional rights to free integral care, forcing the public-health authorities to pay for their treatment in Brazil or abroad, affecting state budgets and their ability to attend to the general population.

Public healthcare is provided either through public hospitals and health services or under contract with private suppliers, creating a constant debate about the costs the public sector is willing or can afford to pay and how much the private providers believe they should receive. The public health sector is also affected by problems of mismanagement and corruption in the procurement of health supplies. Analysts believe that it is possible to provide better healthcare within the current framework by making public hospitals more autonomous and accountable for their work, by convincing the courts to stop granting special privileges to individual claimants, and the introduction of better management practices throughout. However, it is clear that the constitutional principle of free and integral medical care to all will have to be replaced by the principle of providing free or affordable, good quality care to those in need.

## EDUCATION

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National public education in Brazil started very late, increased dramatically in the last twenty years, and is now facing problems of quality and relevance. In 1992, 17.2 percent of the population was illiterate; by 2011, this figure had gone down to 8.4 percent, and was mostly contained to old persons living in rural areas in the country's poorest regions. Among children aged 10–14, illiteracy was 1.8 percent by 2011, a consequence of most children up to the age of 13 or 14 being in school. On average, Brazilians had 4.9 years of education in 1992, compared with 7.4 in 2011. Legally, education is compulsory from ages four to 17, and should be provided for free by the public sector. While secondary and basic education is mostly public, enrolments in higher education largely take place in private institutions. Brazil has developed the largest graduate education and university research sector in the Latin American region, and today its main universities produce about 11,000 PhDs and 40,000 MA graduates every year.

FIGURE 10. SCHOOL PARTICIPATION BY AGE GROUP

SOURCE: IBGE/PNAD 2011

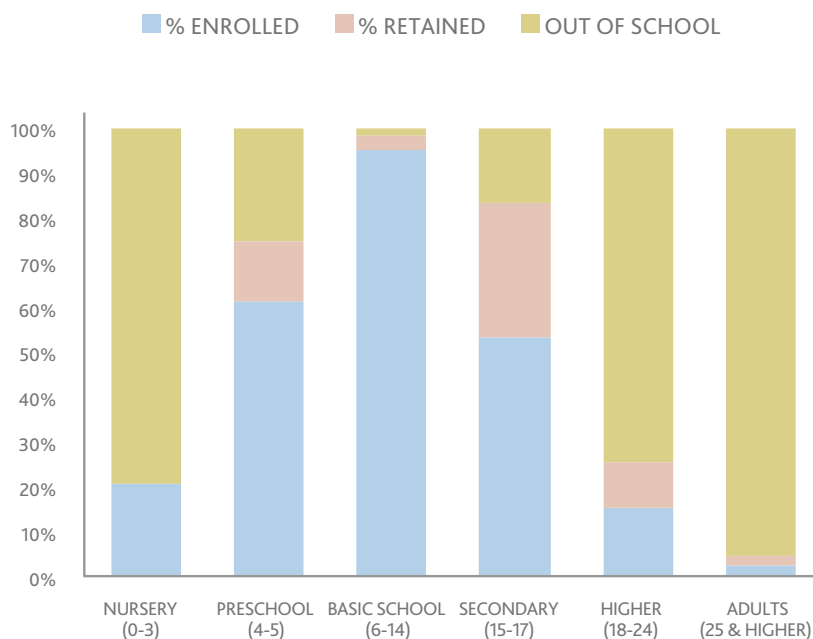
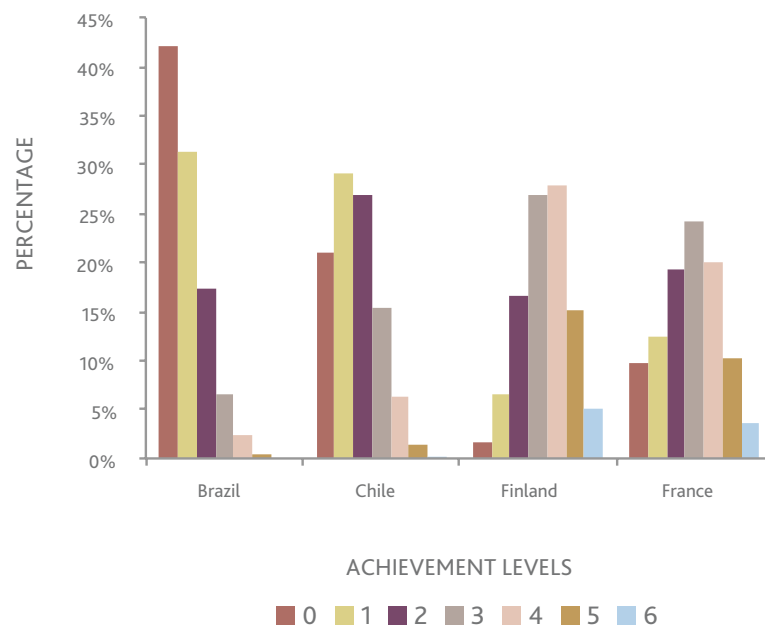


Figure 10 gives the main information on school participation in Brazil: 21 percent of infants up to three years are in nursery schools; 60 percent of children aged between four and five are in kindergarten or literacy classes; and 98.2 percent of children aged between six and 14 are in school, although not necessarily at the level corresponding to their age. In the 15–17 age range, however, only 52 percent are enrolled in secondary school (as all young people of this age should be), 32 percent are still retained in basic education, and 16 percent have dropped out. Eventually, about 60 percent will complete secondary education. At ages 18–24, 14.6 percent are in higher education, 13.5 percent are still retained in secondary education or lower, and 71 percent are out of school. There are about 6.6 million students in higher education, 49 percent of those 25 years or older, most of them working during the day and studying in the evening.

In spite of these very significant achievements, an important phenomenon is the increasing number of young people who neither study, nor work, nor seek employment. According to census data, in the year 2000 this percentage was 16.9 percent and in 2010 had risen to 17.2 percent. Most of these youngsters live in poor households and depend on poor relatives who also have little education. This results in a poverty trap which is very difficult to overcome (Camarano and Kanso 2012).

There are serious problems of quality that affect (mostly) the public schools in Brazil, and were made evident by the low scores obtained by Brazilian students in PISA, the OECD Programme for International Student Assessment (OECD 2009), that

FIGURE 11. PISA RESULTS IN MATHEMATICS, 2009, SELECTED COUNTRIES  
SOURCE: OECD



are similar to the national assessments carried out by Brazil's Ministry of Education. PISA assesses how far students near the end of compulsory education (aged 15) have acquired some of the knowledge and skills essential for full participation in society, through standardised tests of reading, mathematics, and science.

Figure 11 gives the distribution of students' scores in mathematics for Brazil in comparison with Chile, Finland, and France. A score of 2 is the minimum acceptable for students at this stage, scores of 0 and 1 mean that the students are below the minimum, and scores of 5 and 6 correspond to high performance. In most countries, students are distributed along a normal curve. In Brazil, 73 percent of the students are below the accepted minimum and there are almost no high performers. The sample includes only students aged 15 who are at the expected education level for their age (the end of basic or beginning of secondary education), and do not include the millions who are lagging behind or have already dropped out of school at this age.

One explanation for Brazil's poor test results is the fact that most students come from families with little or no education, and they do not get the stimulation and support to learn and achieve that comes more naturally in better-educated families. Schools should strive to compensate for that, but they do it poorly. There are many factors already well identified by the specialists that explain these shortcomings, but have been so far very difficult to change (Bruns, et al.

2011, Veloso 2011). Teaching is not a prestigious profession in Brazil, and teacher education is precarious; public schools are bureaucratic institutions, with little or no incentive for school principals and teachers to perform well. There are no clear standards for the teachers to follow and the curricula tend to be extensive and shallow, relying more on rote learning than in the development of competencies. Unlike most other countries, there is no choice of subjects to study at secondary school. Vocational education has also not developed, in large part because it is considered an addition, and not an alternative, to traditional schooling.

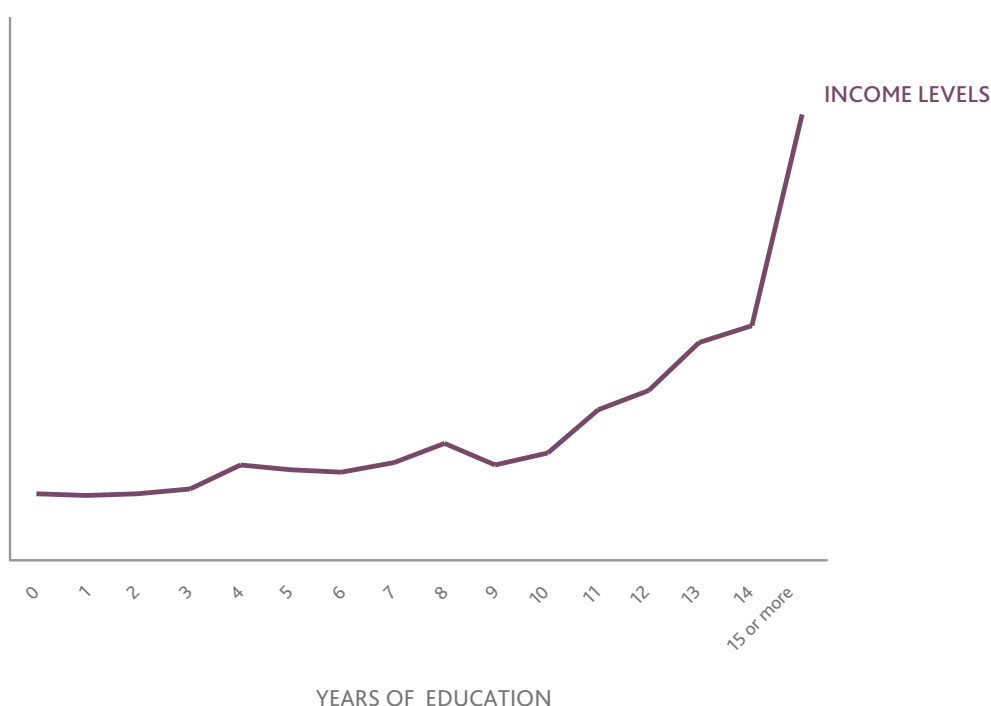
Primary and secondary education in Brazil is the responsibility of states and municipalities, and many of them are trying to deal with the problems of quality by establishing strict curricula, offering financial bonuses to teachers and school personnel for performance, and extending the number of teaching hours. They are also introducing information and communication technology equipment, and establishing partnerships with private companies and philanthropic organisations to improve schools' administrative and teaching competencies. Scattered results are already appearing, particularly in the national assessment of the fifth grade, but the broad picture has still not improved much. Money is always an issue, although Brazil already spends about 5 percent of GDP on education, with another 2 percent being spent by families on private schools and other education costs. Teacher salaries can be reasonable in some states, but not enough to attract the best talents to the profession.

To escape the bad quality of public education, most families from middle and upper sectors of society place their children in private schools, which account for 13 percent of enrolments in basic and secondary education. In higher education, there are a small number of highly selective public universities and career paths, while mass higher education is mostly provided by for-profit, low-cost private institutions. Until recently, students from middle and upper socioeconomic groups would attend good private secondary schools as well as cramming courses to prepare for admittance to a good public university, which are free to attend, while poorer students in public schools could only have access to low-quality, fee-paying institutions. This situation is changing, with the public sector trying to open up its universities to more students from lower socioeconomic backgrounds through affirmative-action programmes and the creation of new campuses and evening courses; while some private institutions have started offering protected niches of good-quality education, particularly in the fields of law and business administration. Graduate education at the doctoral and research levels is concentrated in a small number of public universities, while the private sector has increased the offering of MBA and specialist courses.

The bad quality of Brazilian education may be a concern for specialists, but it is not for the public. Repeated opinion surveys confirm that the population believes that the country's education institutions are of a high standard. Unemployment has remained very low in recent years and there is a very large premium paid by the labour market to those with education qualifications, particularly at the university level (see figure 12). At the same time, while employers complain about the lack of qualified workers, the premium on higher education is being reduced, and unemployment may become a problem if the favourable macroeconomic conditions start to change.

FIGURE 12. INCOME LEVELS BY YEARS OF EDUCATION

SOURCE: IBGE/PNAD 2011



## AGRARIAN REFORM

One area in which social movements have had a strong role is that of agrarian reform, particularly through the militant participation of the landless movement in Brazil, which became known internationally through their well-staged flag-waving demonstrations (Branford and Rocha 2002, Ondetti 2008, Wright and Wolford 2003). Their cause is deceptively simple and straightforward: Brazil is a vast country, with large rural properties, very often not cultivated, and a large number of poor persons living in the country in conditions of extreme poverty or being forced off their land for lack of work and starvation—why not divide the large properties among the poor?

Since the 1990s the government has impounded land deemed unproductive and granted it to participants in the landless movement, often in response to the movement's occupation of large farms. It is estimated that approximately one million families have been placed in these new settlements—574,000 after 2003, according to the Ministry of Agrarian Development (Ministry of Agrarian Development 2011). This should be compared with the 4.3 million family-based rural establishments identified

by Brazil's agricultural census of 2006 that occupy 80 million hectares of land, or 18.6 hectares (46 acres) on average, plus 800,000 large properties occupying 250 million hectares of land, or 310 hectares (766 acres) on average.

The fact is, the changes that occurred in Brazil's countryside, with the development of a combination of large, technology-intensive agribusiness concerns and small, highly productive family-based properties for the production of meat, poultry, soybeans, orange juice, sugar, coffee, fruits (and a wide range of other products for the international and internal markets), together with the strong rural-urban migration that took place in the 1960s and 70s turned obsolete most of the claims and justification for agrarian reform as a major instrument for social inclusion. In practice, most agrarian reform settlements have proved unproductive and totally dependent on a continuous flow of state subsidies. Experts estimate the cost of implementing and maintaining unproductive settlements are much higher than simply helping out the families involved by enrolling them in conditional cash transfer programmes such as Bolsa Família. The costs of agrarian reform have been going up since the supply of 'unproductive land' was exhausted ten years ago, while no clear solution has been found to the commercial unsustainability of the agrarian reform settlements.

## AFFIRMATIVE ACTION AND RACE

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Another area of intense mobilisation and debate is that of affirmative actions based on race. Until the nineteenth century, the Brazilian economy was based on slaves brought from Africa to work in plantations and mines. Following the abolition of the slave trade in 1850 slavery started to lose its economic importance, and it was formally abolished in 1888. Slavery in Portuguese Brazil was very different from that in the United States, with intense miscegenation and the growth of a large mixed-blood population. There was never legal discrimination similar to the 'Jim Crow' laws in the US or the apartheid system in South Africa (Freyre 1946, Klein 1967, Klein and Luna 2009, Tannenbaum 1992). Still, slave descendants and the descendants of the indigenous population (which was largely decimated or pushed to the perimeters of the country during the colonial period) are significantly poorer than both the descendants of the Portuguese or more recent European and Asian immigrants, and are subject to diffuse forms of prejudice and discrimination (Silva and Hasenbalg 1992, Telles 1994).

Brazil collects data on race by asking the respondents in the census and household surveys about their self-declared 'colour'—white, black, brown (*'pardo'*), and yellow (now divided into 'Orientals' and indigenous). Table 2 shows that 49 percent of the population consider themselves white, 9 percent black, and 41 percent brown, with a small number of persons declaring themselves 'yellow'. The boundaries between these categories are fuzzy, and it is easy for persons of mixed blood—most of the population in fact—to 'pass' from one category to another. Nevertheless, the differences in income among the groups are significant, particularly regarding the higher income of the Oriental group, who are mostly descendants of Japanese immigrants who have invested in their children's education (Schwartzman 2007, Schwartzman 2009).

TABLE 2. MONTHLY INCOME LEVELS BY 'COLOUR'. (BRAZILIAN REAIS)

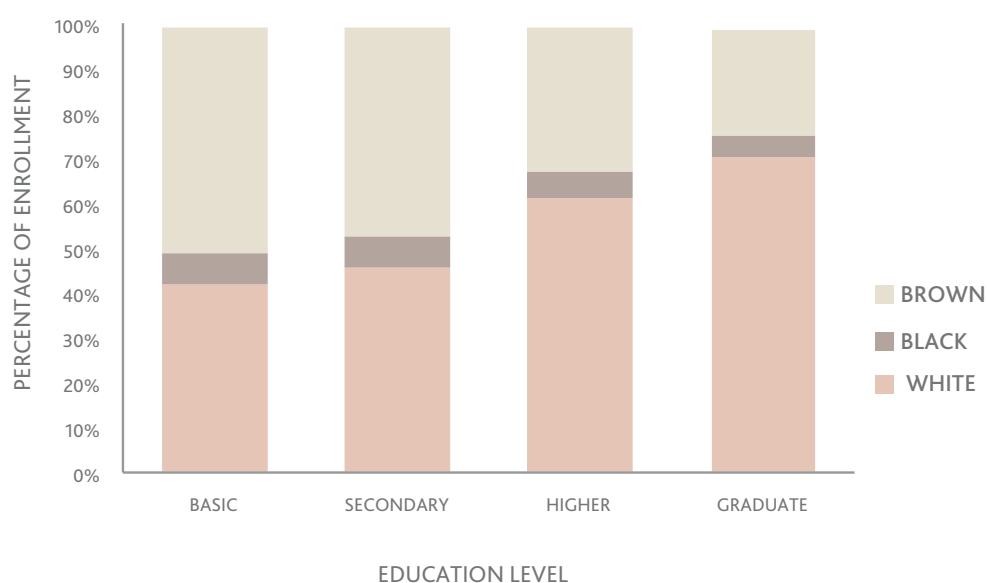
SOURCE: IBGE/PNAD 2011

MONTHLY INCOME LEVELS BY "COLOUR", BRAZILIAN REAIS		
Colour	Respondents	Mean Family Income
Indigenous	380.019	846
White	45,452,881	1.577
Black	8,461,582	925
Oriental	520.683	2.191
Brown	38,677,902	906

Brazilian legislation punishes severely any form of race discrimination. There is a ministerial-level Secretary for Policies to Promote Racial Equality that is actively engaged in advocating race-based affirmative actions, and in 2010 Congress approved the Statute for Racial Equality that lists the race-based affirmative actions to be implemented in the areas of education, healthcare, culture, sports, religion, land tenure, housing, the job market, and the mass media. These policies are strongly supported by organised social movements committed to issues of race equity and promotion, stimulated and financed by the Brazilian government through a variety of programmes and also by international organisations such as the Ford Foundation.

FIGURE 13. COLOUR BREAKDOWN OF EDUCATION ENROLMENT

SOURCE: IBGE/ PNAD 2011



One point of contention regarding these policies is to what extent the social and economic differences that exist in Brazilian society are due to race discrimination or to issues of poverty and low education, which prevail among the descendants of Africans. Another issue is the moral hazard associated with affirmative actions based on self-identification in a country where most of the population have mixed origins (Pena and Cátira 2004).

Race-based affirmative action has been particularly strong in public higher-education institutions that usually provide more favourable conditions of access to self-declared black or 'brown' students and also to poor students coming from public secondary schools. Recent legislation requires that 50 percent of places in federal universities should be given to non-white students and students from public schools. In quantitative terms, the effects of these policies do not seem to be very significant because federal universities are responsible for only 14 percent of the enrolments in higher education, and because, as education opportunities expand, racial equity in education improves. As figure 13 shows, the 'colour' breakdown in basic and secondary education is very similar to that of the population, although whites are disproportionally more numerous in higher education and graduate education. A similar graph using income levels instead of race or colour categories would show very similar results.

## URBAN VIOLENCE

Urban violence has worsened in recent decades, becoming one of the major social problems in the country. From 1980–2003, the homicide rate grew by 150 percent, reaching 28.86 per 100,000 inhabitants. Since then there has been a change in this trend and the rate has suffered a slight decrease (see figure 14), although it is still very high at 26.2 per 100,000 inhabitants in 2010. By comparison, the United Nations Office on Crime and Drugs reports 21.8 homicides per 100,000 for Brazil, 30.9 for South Africa and 3.5 for India for 2011 (United Nations Office on Drugs And Crime 2013).

FIGURE 14. BRAZIL, HOMICIDE RATES (PER 100 THOUSAND) 1980-2010

SOURCE: (WAISELFISZ 2102)

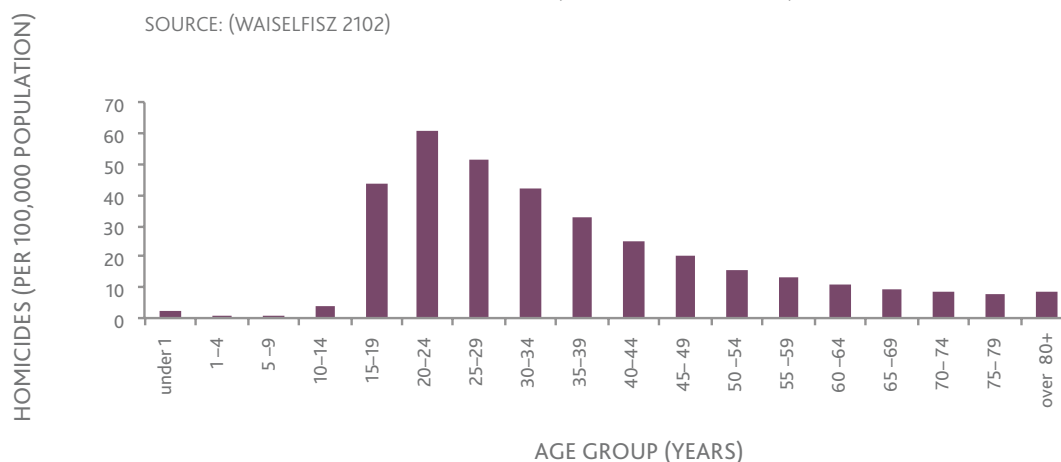
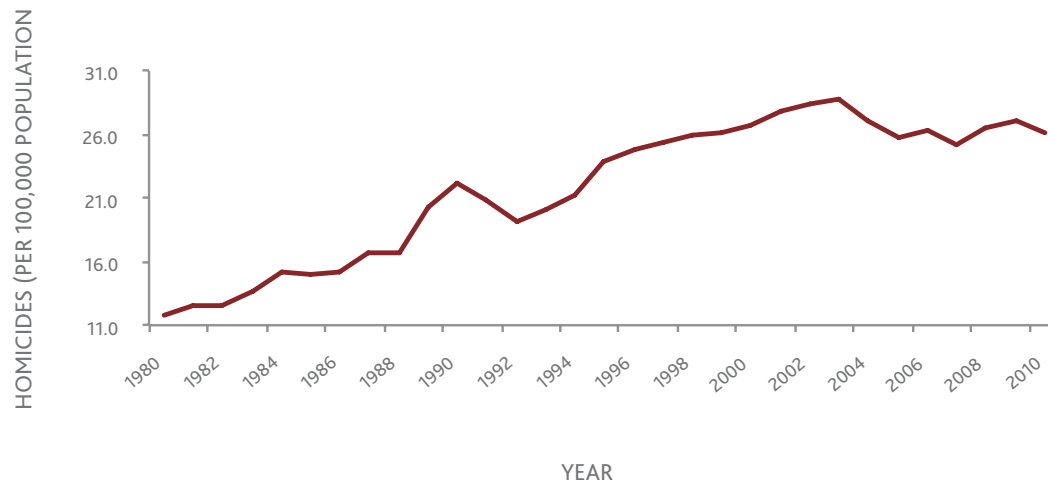


FIGURE 15. BRAZIL, HOMICIDE RATES (PER 100 THOUSAND) BY AGE GROUPS, 2010  
SOURCE: (WASELFSZ 2102)



The main victims of urban violence are young people aged 15–29. Furthermore, 91.4 percent of victims are male, and the rate of violence among black people (35.9 per 100,000) is more than twice that of whites (15 per 100,000).

While some major cities, such as São Paulo and Rio de Janeiro, were able to reduce urban violence in recent years, the situation is getting worse in poorer states such as Alagoas (with a rate of 50.1 per 100,000 inhabitants), Espírito Santo (56.5 per 100,000), and Brasília, Bahia, and Rondonia (all with rates above 30 per 100,000).

In São Paulo, Brazil's largest city, the homicide rate went from 70 per 100,000 inhabitants in 1999 to 15 per 100,000 in 2009. Analysts attribute this change to a combination of factors such as: a reduction of the number of firearms in circulation; the creation of intelligence apparatus, with mapping of occurrences in the city; and the restructuring of homicide investigations that have resulted in an increase in the rate of solving crimes. Demography also plays a role, with the aging population and changes in the characteristics of family structure also affecting crime rates (Hartung and Pessoa 2007). The police forces in São Paulo are considered the best organised in the country, and are also known for their violence, with large numbers of supposed criminals being killed in police operations. There are signs that urban violence is growing again in São Paulo because of the increasing belligerence of criminal gangs.

Homicide rates in Rio de Janeiro went from 62.6 per 100,000 inhabitants in 1998 to 46.4 per 100,000 in 2006, to 17.6 per 100,000 in 2009. The main explanation for this reduction was a project inaugurated in 2008 to establish permanent police posts in Rio's shanty towns (or favelas), known as Pacifying Police Units (UPPs). This was in response to criminal gangs who were engaged in drug trafficking

and other criminal activities controlling most shanty towns and not allowing the regular police and urban social services to reach the population. The UPP project, still in progress, required a deep reorganisation of the police force, known for its inefficiency, high levels of corruption, and violent behaviour. As of 2013, 30 UPPs have been installed, with 8,014 policemen present in 207 different territories, helping 450,000 people to benefit from this presence—this corresponds to about 40 percent of the population living in Rio's favelas, not including those outside the city's metropolitan area. The UPPs are staffed by new police recruits who are required to develop cordial and cooperative relations with the local population. Although there is still no impact evaluation of the programme, the statistics show a decrease in crime and improvement of educational indicators in the shanty towns.

No other major city in Brazil, except Belo Horizonte, has seen such a major effort to deal with the urban violence that has been spreading rapidly in the absence of credible local governance and effective policing. The roots of urban criminality and violence, of course, are much broader than just the absence of repression, but both can get easily out of control when there is a lack of effective local governance, which is a serious problem for a political democracy such as Brazil.

## Conclusion

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The main conclusion of this overview is that the two most important sources of growth and of the reduction of inequality in Brazil in recent decades have exhausted themselves, and the country may be at the edge of starting a new cycle. The first positive source of change was the demographic transition when millions of people moved from the countryside to the towns, introducing a large and young labour force to the monetary economy, which in turn was able to reap some of the benefits of urban life. But there are very few people left in the countryside now, birth rates are falling, the population is getting older, and the cities are overcrowded.

The growth of the Brazilian economy and the increasing complexity of its society are creating new sectors of the population that are more educated, less dependent on government hand-outs, more willing to press for political and fiscal reform, and less tolerant regarding the patterns of corruption that still prevail in the nation (Lamounier and Souza 2010). The hope is that as the country continues to develop and this sector of the population increases its weight, policy-making in Brazil could become less based on pork-barrel give-and-take and become more responsive to the needs of a modern society, strengthening the quality of public institutions and assuring that the experiences of populist and authoritarian rule remain firmly in the past.

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