

Assessing Social Exclusion and Mobility in Brazil¹

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1.1 Context

In 2001, the World Bank updated a previous poverty assessment of Brazil that analyzed the relationship between income variables and household characteristics. The report provided an updated poverty profile, analyzed the impact of public social spending on poverty, and reviewed the effectiveness of selected policy interventions in order to provide suggestions for the development of a national poverty reduction strategy. The report identified that further work was needed to assess issues related to inequality, opportunity and social exclusion.

Previous research on poverty and inequality in Brazil has focused on the extent to which various factors (labor markets, human capital, prejudice, location, etc.) contribute to poverty and inequality. Little attention, however, has been given to social exclusion processes to explain why certain groups do not have equal access to resources (economic, cultural and political) and/or do not have the same opportunities as other groups to improve their living standards. Similarly, very little is known about the perception Brazilians have of inequality, and which factors or individual characteristics are seen as determinants of income inequalities and social mobility.

In response to these concerns, this study was proposed to advance the development community's understanding of social exclusion processes in Brazil. The initial objective was to analyze how processes of social exclusion created barriers to social mobility among the poor in Brazil, the better to identify some policy levers or interventions that could be used to remove those barriers and contribute to more effective poverty alleviation and social inclusion. With that objective in mind, an interdisciplinary group of Brazilian scholars (a political sociologist, cultural anthropologist, and economist) was asked to prepare position papers to help: (i) identify the key research questions through a literature review; (ii) propose basic hypotheses to be tested and; (iii) design a research proposal to answer the questions identified. The papers provided the conceptual background based on an up-to-date review of the literature, contributed to the identification of the key research questions, and to the identification of the methodological options to approach those issues.² Based on these papers, a research proposal was drafted by the World Bank and discussed with scholars and representatives of civil society organizations in Brazil. As a result of the Bank's internal peer review process and external consultations, a revised research proposal was prepared to understand why certain social groups have maintained their relative socio-economic position compared to others over time, and what Brazilians think about income inequality and social mobility.³

The fruits of the research effort that resulted from that revised proposal are displayed in the present volume, which explores three main questions: (i) Are there groups of poor people in Brazil that

¹ This paper correspond to "Chapter 1: Introduction: Assessing Social Exclusion and Mobility in Brazil" in Estanislao Gacitúa Marió and Michael Woolcock (Forthcoming). *Social Exclusion and Mobility in Brazil*. Brasilia: IPEA/World Bank

² These background papers are included as Chapter 5, 6 and 7 in part two of the volume *Social Exclusion and Mobility in Brazil* (*ibid*). We are conscious that the final methodology selected for this study is not the ideal one, but the data required to make more definitive statements about exclusion and mobility—extensive and true (as opposed to pseudo-) panel data—is simply not available at this time, and the resources available to us were relatively modest. As such, we have endeavored to provide the most rigorous analysis possible on these important issues given the time and resource constraints under which we were working; it is of course our hope that the present study will lend support to subsequent efforts to collect the best data possible.

³ Two groups of Brazilian scholars—one focusing on income dynamics, tracking changes over time of groups with different characteristics, and the other trying to understand how Brazilians perceive income disparity—worked in collaboration with the Bank to answer these questions. Draft versions of their reports were presented at a seminar in Fortaleza, Brazil on May 15 and 16, 2003. The present volume was prepared incorporating the feedback received during the seminar and the valuable comments subsequently provided by peer reviewers at the World Bank.

experience less income mobility than others based on their race, education, age, gender and location?; (ii) Which factors are perceived by Brazilians as determinants of income inequality? (iii) Are there differences between social groups regarding their perception of income inequality and social mobility? To answer these questions, the contributors to this volume analyze the links between economic processes, political-institutional constraints, and cultural elements that contribute to poverty and affect social mobility. The report looks at income dynamics to track changes in the positions of social groups relative to others with similar characteristics, and analyzes perceptions of inequality to shed light on the processes that contribute to the lack of social mobility of certain social groups.

1.2 Origin and Rationale for the Study

Brazil is a country of sharp disparities. The gap between the richest and the poorest is one of the largest in the world: the wealthiest 1% earns more than the poorest 50% (Paes de Barros et al. 2001). Over the past century, until 1980, Brazil was one of the fastest growing economies in the world; even between 1980 and 2000, GDP per capita grew at a respectable average annual rate of 2.5%. Despite the recurrent crises faced, Brazil's overall growth and economic stabilization over the last decade have contributed significantly to the reduction of poverty and to improve social indicators or even surpassed levels that would be expected at the country's average income level.⁴ Changes in public policy have doubtless played a crucial role in these achievements, by seizing the opportunities created by growth, mitigating negative impacts of shocks, and expanding services to the poor.

Although the poverty rate has dropped over the last 20 years—from about 40% in 1977 to 36% in 2000—the poverty rate is still high in comparison to other countries with similar income *per capita* (Paes de Barros et al. 2000). Most conspicuously, income inequality is among the highest in the world, with a Gini coefficient in the order of 0.58-0.60⁵ and has remained fairly constant over time.⁶ Paes de Barros et al. (2000) show that GDP per capita is about 4.2 times the value of the poverty line and 8.5 times the value of the indigence line. For these authors, the immediate origin of poverty in Brazil would then lie in the inequality of the income distribution, resources and wealth.

Compounding Brazil's inequality, the available evidence suggests some social groups and individuals are more likely to remain stuck in poverty. A significant number of extremely poor individuals with low education levels remain at the bottom of the income distribution, largely untouched by economic development. Poverty has become increasingly concentrated among populations with specific characteristics: children and youth, indigenous, black, non-immigrant, unemployed, and employed in agriculture/rural areas⁷, or in the informal sector. In other words, there has been a trend toward homogenization and concentration of poverty among some social groups. These poor—maybe the bottom 10-15% of Brazil's income distribution—appear to be excluded from the benefits of economic growth, employment and education. It is these groups that are the focus of this study.

1.3 Approach and Focus

This study builds upon a social exclusion perspective (SEP), which holds that the interaction of specific structural mechanisms restrict the accumulation of, or access to, different resources that allow individuals to participate in society and move out of poverty. Social exclusion processes occur through the interaction of many dimensions, including: socio-demographic characteristics (gender, age); cultural elements (ethnicity, race, norms, values, and definitions of what is “acceptable”), economic factors, and politico-institutional elements (representation, organizational structure, etc.).

⁴ For details, see World Bank (2001a).

⁵ Paes de Barros et al. (2000) show that among 92 countries, Brazil's position is just above that of South Africa and Malawi in terms of the concentration of the Gini coefficient. See also Fishlow (1972, 1973), Bonelli (1993), Bonelli and Ramos (1993), Bonelli and Sedlacek (1989), Ferreira (2000), Ferreira and Litchfield (1996), Henriques (2000), and World Bank (2002), among others.

⁶ Paes de Barros et al. (2000).

⁷ See World Bank (2003a) for details of the World Bank's strategy for rural development in Brazil.

Social exclusion refers to processes that increase the exposure to risks and vulnerability of certain social groups. Social exclusion mechanisms create barriers for vulnerable groups to access assets and productive resources, and to participate in the market and social, cultural, and political institutions. Exclusion works through institutional-procedural processes that limit the opportunities of certain groups to exercise their rights to have equal access to markets, services and means of political participation and representation based on built-in features of the functioning of those institutions. At the same time, exclusion processes could be based on and operate through prejudices and preconceptions that may result in the refusal by society to grant rights to the poorest, or in the granting of rights of a lower quality, especially in economic, social, and cultural matters, which are extremely difficult to eliminate (as they are more subjective). Socio-cultural exclusion refers to the differentiated access of groups to the social and material benefits of society, when the causes of this differentiation reside in the existence of conflicts of a non-structural origin or in the unequal disposition of symbolic goods. Socio-cultural exclusions tend to be relied upon to justify procedural exclusions.⁸

Processes of social exclusion can best be explained through a multi-disciplinary approach. This research combines disciplines to establish the link between economic processes, political-institutional constraints and cultural (valued) elements that contribute to social exclusion and affect social mobility. With respect to mobility, the report will draw inferences based on the income dynamics of homogeneous groups, tracking changes in the positions of social groups relative to others with similar characteristics. Regarding inequality, the study will look at Brazilians' perception of inequality, trying to uncover which perceived factors generate inequality and lack of social mobility.

Previous research on poverty and inequality in Brazil has focused on the extent to which some factors (labor markets, human capital, prejudice, space/location) contribute to poverty and inequality.⁹ Little attention has been given to social exclusion processes to explain why certain groups do not have equal access to resources (economic, cultural and political) and/or do not have the same opportunities than other groups to improve their living standards¹⁰. Similarly, very little is known about the perception Brazilians have of inequality, and which factors or individual characteristics are seen as determinants of income inequalities and social mobility.

Why should scholars, policymakers, and citizens care about social exclusion and mobility? All three groups have long expressed varying degrees of concern about inequality, but a focus on exclusion and mobility seeks to add an additional dimension that explores the factors shaping whether and how particular groups escape from or get trapped in poverty. Some (e.g., Hirschman 1973) have suggested that high levels of inequality can or might be tolerated where there is a perception that mobility is desirable and possible (see also Ravallion and Lokshin 2000). That is, the direct consequences of high inequality might be at least partially mediated in those circumstances where there is a clear sense that the talented, diligent, and honest move up and the inept, lazy or corrupt move down. This is one of the mythologies of the United States, for example (see Alesina and Ferrara 2001). Irrespective of whether the US is in fact a "high mobility" country, it should be clear that low mobility and high inequality represent a worst case economic scenario: the race starts with certain groups enjoying a considerable head start, *and* there is little that those who begin well behind the others can do to overcome this disadvantage over the course of their lifetime (and/or through their children in subsequent generations).

⁸ There is vast literature discussing these issues at the conceptual and methodological level, as well as the application of the notion of social exclusion to the analysis of poverty in Latin America. For further details see, among others, Aggleton and Parker (2003), Figueroa *et al.* (1996), Gaudier (1993), Gore and Figueiredo (1997), Gacitúa-Marió, Sojo, and Davis (2000), Gacitúa-Marió and Wodon (2001), International Institute For Labour Studies, ILLS (1996), Sen (2002), and Wodon (2000).

⁹ See Almeida reis and Paes de Barros (1990) and Paes de Barros and Lam (1993).

¹⁰ The works of Hasenbalg and do Valle Silva (1988), do Valle Silva (2000b) and Oakley (2001) on race are an exception. Similarly, Singer (1997) proposes the notion of social exclusion to analyze the causes leading to poverty and inequality in Brazil. However, none of those studies identifies and measures the different factors contributing to the persistent poverty and lack of social mobility among certain social groups. Other studies have utilized social exclusion as a result (category in itself) rather than a process leading to poverty and inequality (see Câmara *et al.*, 2001). For a critical view of the application to social policies in Brazil of the concept of social exclusion, see Zaluar (1997).

Even in countries that are otherwise applauded for being relatively "equal" economically, severe social (and other) barriers to mobility—such as caste, ethnicity, age, or religion—can exclude certain groups from accessing the services (e.g., schools, hospitals, courts) and markets (jobs, housing, finance) on which the growth process depends. Most post-socialist countries, for example, entered their transition with unusually low levels of inequality, but various forms of social exclusion (e.g., of the unskilled, of minority groups such as the Roma) and institutional weakness have conspired to erode the sense of confidence among the excluded (in some countries a large proportion of the population) that a better future awaits them, or is even possible.¹¹ Brazil's very high inequality is well known, but is it also a country with low mobility? If so, who is excluded from enjoying the fruits of the overall growth process, and what might be done to redress this?

1.3.1 Hypotheses and Methodology

The objective of this study is to analyze some of the exclusionary factors and processes that contribute to the lack of mobility of the extreme poor in Brazil. Specifically, the papers in this volume explore a set of hypotheses to explain some of the possible causes of the presumed lack of mobility of social groups among the extreme poor in Brazil. The authors analyze changes in average income rankings of groups with similar (educational, gender, race, spatial, location) characteristics, explore the factors explaining those changes, and discuss perception Brazilians have about tolerance to inequality, its causes, and the perceptions they have about social mobility. Finally, this volume concludes by advancing some policy recommendations regarding what can be done to remove the existing barriers to greater social inclusion in Brazilian society.

Three research questions guided the study:

- *Are there groups of poor people that experience less income mobility than others based on their race, education, age, gender and location?*
- *Which factors are perceived by Brazilians as determinants of income inequality?*
- *Are there differences between social groups regarding their perception of income inequality and social mobility?*

To explore these questions, the study used a social exclusion perspective to analyze relative changes in the positions¹² of groups with similar characteristics (cohort-educational level-gender-region), to shed light on the factors that contribute to explaining the probability of being stuck in poverty (a situation similar to the chronic poverty concept), and to understand the perceptions people have about inequality. The report starts by identifying (from PNAD¹³ household surveys) homogenous groups based on some personal and household characteristics and draws inferences on the extent of income mobility in Brazil among the poor, tracking changes over time in the positions of social groups and individuals relative to others with different characteristics, and identifying signs of (eventual) income convergence

¹¹ Ravallion (2001) argues that greater global economic integration itself might encourage a "regression to the mean" in terms of relative inequality levels (i.e., a Gini of around .4), with inequality rising in those countries in which it was previously "artificially low" as a result of government decree (e.g., the ex-Soviet bloc countries) and inequality falling in those countries in which it was previously "artificially high" as a result of regrettable historical episodes (South Africa, Brazil).

¹² To approach the issue of mobility, the study looks at changes over time in the income rankings of homogenous social groups. For further discussion on the methodological issues involved in measuring mobility among the extreme poor through incomes, see Birdsall and Graham (2000) as well as the August 2000 volume of the *Journal of Development Economics* (devoted to the issues of economic mobility and poverty dynamics). See also Andersen (2000) and Dunn (2003).

¹³ The PNAD surveys use a sample of about 125,000 households, and are representative at the national, urban, and rural, regional, and state levels.

among groups. The report then uses data from the ISSP¹⁴ survey to look into the perceptions Brazilians have of inequality and lack of mobility.

The analysis of income changes over time is based on pseudo panels obtained from cross-section data from PNAD surveys covering selected years between 1977 and 2001 (1977, 1981, 1985, 1989, 1993, 1997, and 2001).¹⁵ Although the PNAD data are not collected on a panel basis, sampling is done using repeated census tracks. This allows researchers to follow groups of individuals over time by classifying them according to a certain set of criteria (cohorts, education, gender, race, migration, household structure, location, etc.). Individuals/households in each year are not the same. However, repeated cross-sections of groups of individuals can be a good approximation of each cohort as long as the sample sizes are sufficiently large. Five cohorts were selected: individuals born in the years 1940-44; 1945-49; 1950-54; 1955-59 and 1960-64. For each group, average real earnings were computed and the various sources of income studied. Specific tests were conducted to check income differences in individual cohorts controlling by gender, educational level, race and region. The extent of income mobility over time was inferred based on income ranking correlations. A pseudo panel regression approach was used to test whether there was any tendency towards income convergence across cohort groups over time between 1977 and 2001. Finally, a probit model to estimate the probability of being poor in each cohort-schooling group in 1981, 1985, 1989, 1993, 1997 and 2001 was developed using a set of variables reflecting personal and household characteristics.

To address the issue of perceptions of inequality and lack of mobility, logistic regressions were used to explore which dimensions explain these perceptions, and Ordinary Least Squares analysis was used to identify which social, economic and demographic characteristics best explain the differences in the “accepted” level of income inequality. The main explanatory variables considered in the models included (i) household income, (ii) schooling, (iii) age, (iv) social stratum, (v) sex, (vi) rural/urban, (vii) employment status, and (viii) perceived mobility status.¹⁶

The following section of this chapter summarizes the background context of exclusion and mobility in Brazil, and provides an overview of the main findings of the research. Chapters 2 and 3 are the result of the work of an interdisciplinary team of Brazilian specialists who worked jointly with the World Bank in the development of this research.¹⁷ Finally, Chapter 4 discusses the main conclusions and policy recommendations that emerge from this research.

1.4 Development and Exclusionary Processes

The particular development pattern experienced by Brazil has, on average, benefited the non-poor more than the poor. Brazil developed through a process of “conservative modernization” whose principal feature was the non-incorporation of large segments of the population into modern sectors of the economy, society and political system.¹⁸ Scholars have long argued that Brazilian society is characterized by deep contradictions, one in which, in principle, all have equal rights, but in reality one in which certain social groups cannot fulfill these rights and are excluded from the services provided by the government to its citizens.

¹⁴ In 2001, the survey—which included a module on perception of inequality—was applied to a nationally representative sample of 2000 respondents. The International Social Survey Program (ISSP) is a continuing, annual program of cross-national collaboration. More than thirty-eight member countries are participating up to this moment.

¹⁵ For a detailed discussion of the methodology see Chapter 2, by Regis Bonelli, Gustavo Gonzaga and Alinne Veiga (2003).

¹⁶ For a full discussion of the methodology, see Chapter 3 by Maria Celi Scalón and Ignacio Cano.

¹⁷ Draft versions of these chapters were presented at the “*3 Encontro Internacional Sobre Desigualdades e Exclusão Social*”, which took place in Fortaleza, Brazil on May 15 and 16, 2003. The papers were finalized based on comments received during the workshop and subsequently from World Bank peer reviewers.

¹⁸ For further analysis see Reis (1979, 1999); Reis and Schwartzman (2002); Schwartzman 2000; Bacha (1978); and DaMatta (1995).

Until the 1930s, the Brazilian economy was dominated by the agricultural sector, mainly coffee for export and low-productivity agriculture and livestock for domestic markets. Beginning in the 1930s, reflecting a shift in the power structure from the rural to the nascent urban elites, an embryo welfare state began to emerge. In the 1950s, Brazil embarked on a massive industrialization program to end its dependence on foreign imports and to strengthen the internal position of its economy. As a result, Brazil experienced a rapid change from a predominantly rural and agricultural socioeconomic structure to an urban and industrial based structure.

Economic growth and industrialization in Brazil after 1945 was constant and fast until the beginning of the 1980s¹⁹. However, it was not until the 1970s that the country definitively changed from a rural to an industrial and urban society, in which the industrial and service sectors far surpassed the agricultural sector.²⁰ Between 1960 and 1980, more than 30 million people moved from the countryside rushing into the cities. Such a pattern of growth initially tended to favor higher-paid formal sector workers to the detriment of rural people. The transfer of labor force from rural to urban sectors led to a deep transformation in the social structure and had as a major consequence the ascending mobility of many workers and their families. This context generated and reinforced expectations of upward individual mobility and status attainment, in which the major target was to get access to goods and benefits from development. By 1980, Brazilian industrial output was the seventh largest in the western world. Progressively, the changes that took place in the labor market in Brazil due to industrial restructuring processes resulted in a dramatic increase in the share of workers that were part of the so-called "informal" sector, having a negative impact on the upward mobility perspectives of the poor. These structural changes were slowed by the recurrent crises over the last two decades.

After the East Asian financial crisis, the average yearly GDP growth declined from 0.6% between 1990 and 1997 to -0.8% in 1998-1999 (CEPAL, 2000:40), which had negative results on income and, consequently, on social mobility. Existing data shows that the macroeconomic stabilization program after the implementation of the Plano Real in 1994 had a limited positive impact in the proportion of the poor in the population, which declined from 41.7% in 1993 to 33.9% in 1995, however the stabilization did not affect inequality as measured by the Gini coefficient (see Table 1.1).²¹

Table 1.1: Selected Poverty Indicators for Brazil, 1977-1998

Year	Percentage of		Total Poor Million	GDP per capita measured as times of		Gini Coefficient	Percentage of Total Income				
	Extreme Poor	Poor		Extreme Poverty Line	Poverty Line		20% poorest	40% poorest	20% richest	10% richest	1% richest
1977	16.3	39.6	40.7	6.6	3.3	0.62	2.4	7.7	66.6	51.6	18.5
1978	20.7	42.6	45.2	6.8	3.4	0.60	2.1	7.6	64.1	47.7	13.6
1979	15.9	38.8	42.0	7.1	3.5	0.59	2.7	8.4	63.8	47.5	13.6
1981	18.8	43.1	50.6	7.1	3.6	0.59	2.6	8.5	63.2	46.9	12.8
1982	19.4	43.1	51.9	7.0	3.5	0.60	2.5	8.2	63.9	47.4	13.2
1983	25.0	51.0	62.7	6.7	3.3	0.60	2.5	8.1	64.5	47.9	13.6

¹⁹ From 1945 to 1980, the Gross Domestic Product grew at an average rate of 4.3% per year, establishing Brazil as one of the largest economies in the world.

²⁰ For a history of economic policy in Brazil, see Abreu (1990). Some claim that the transition to an industrialized society is still in course, and that as a result Brazil is a disarticulated society characterized by high indices of income and wealth inequality; on this point see Fernandes (1977, 1994) and Bacha (1978 and 1985).

²¹ See Paes de Barros et. al (2000, 2001) and Rocha, (2000).

1984	23.6	50.4	63.5	6.9	3.4	0.59	2.7	8.5	64.0	47.7	13.3
1985	19.2	43.5	56.9	7.3	3.6	0.60	2.5	8.1	64.5	48.3	14.3
1986	9.8	28.2	37.6	7.7	3.8	0.59	2.6	8.5	63.5	47.3	13.9
1987	18.5	40.8	55.4	7.8	3.9	0.60	2.3	7.8	64.5	48.2	14.3
1988	22.1	45.3	62.5	7.6	3.8	0.62	2.1	7.3	66.0	49.8	14.4
1989	20.7	42.9	60.6	7.7	3.9	0.64	2.0	6.8	68.0	51.9	16.7
1990	21.3	43.8	63.1	7.3	3.6	0.62	2.1	7.3	65.8	49.2	14.3
1992	19.3	40.8	57.3	7.1	3.5	0.58	2.3	8.4	62.2	45.8	13.3
1993	19.5	41.7	59.4	7.3	3.7	0.60	2.2	7.9	64.5	48.6	15.1
1995	14.6	33.9	50.2	7.8	3.9	0.60	2.3	8.0	64.2	47.9	13.9
1996	15.0	33.5	50.1	7.9	4.0	0.60	2.1	7.7	64.2	47.6	13.6
1997	14.8	33.9	51.5	8.1	4.1	0.60	2.2	7.8	64.2	47.7	13.8
1998	13.9	32.7	50.1	8.7	4.3	0.60	2.3	8.0	64.2	47.9	13.9

Source: Adapted from Paes de Barros et al (2000).

Table 1.2 Responsiveness of Poverty to Economic Growth

Recent studies have shown that Brazil's poverty is less responsive to growth than in other countries. Growth elasticities of poverty reduction are relatively lower in Brazil than in other countries (Table 1.2). Extremely high inequality is the main reason for Brazil's relatively low growth-poverty elasticities.

<i>Growth Elasticities</i>	Extreme Poverty	Poverty Line
	Line (R\$65)	(R\$132)
International (similar lines, world, excl. CEE)	Not available	-1.57
Latin America	-1.3	-0.94
Brazil 1996 profile with fixed distribution	-1.15	-0.80
Brazil actual, 1985-96	-0.74/-1.09	-0.58/-0.85

World Bank (March 31, 2001).

These results suggest that a key obstacle to overcoming poverty in Brazil is not lack of resources, but its

unequal distribution (Paes de Barros et al. 2001), and that a better income distribution would have greater impacts on economic mobility. Paes de Barros et al. (1997) estimate that policies that generate a drop of 0.10 in the Gini coefficient (keeping the average income constant) would have an impact on the proportion of the poor similar to one decade of economic growth at 3% per year.²² Brazil is not a poor country, but an unequal country with a big poor population (Henriques, 2000b:4), a distinction which, as will be seen, has widespread impacts on policies being proposed.

Furthermore, previous research has also shown how specific sectors of the poor population are more likely to be poor than others. As is well known, poverty in Brazil has a distinct regional component. The decline in poverty did not help to overcome these regional inequalities²³. In sum, the literature shows that it has been hard to achieve consistent economic growth, and that even when this has been achieved, it has had limited impacts on reducing poverty and social exclusion.

²² The World Bank estimates indicate that without redistributive policies, an average GDP growth rate of almost 8% per year would be required to halve the poverty rate by 2015 (see *Attacking Brazil's Poverty*. The World Bank 2001: 11). On another study, ECLAC estimates that, without altering the inequality of the distribution of income, Brazil would have to present an accumulated economic growth of 86% in 15 years. This, in turn, would require an average annual per capita GDP growth rate of 4.0%, a substantially higher rate than the economy has achieved at any time in the last 20 years (UNDP/ECLAC/IPEA, 2002:26).

²³ In fact, data from 1993/97 show an increase in the dichotomy between poverty levels in the North and Northeast regions versus the Center and the South (Rocha, 2000: 10). Also, as this study will show later, poverty reduction in the period 1981-2001 is consistently clear only for older cohorts and only for the lowest educational categories who receive retirement/pensions earnings.

1.4.1 Exclusionary Mechanisms

There are multiple mechanisms through which exclusionary processes affect the lives of the poor in Brazil. Recent reports on poverty in Brazil²⁴ explore the relationship between income poverty and multiple household characteristics. These studies have helped identify the determinants of poverty in Brazil and assess the impacts of anti-poverty policies. Spatial location is a factor that contributes to poverty—nearly 50% of the poor are in the Northeast region (although they represent only 30% of the total population); 55% live in rural areas or small urban areas (which contain 35% of the population).

The data on social exclusion in Brazil show how it disproportionately affects rural populations, and most specifically those in the Northeast region.²⁵ Among the poor, the majority are found among farm households located in remote, isolated, sparsely populated and low productivity areas, for whom income from farming and agricultural labor represent approximately 70% of their total household income (World Bank, 2001b:8). The most vulnerable group comprises elderly people, widows, and part of the farm workers in poorly endowed areas. Those “trapped” in poverty face tremendous obstacles for social mobility, since they can hardly benefit from opportunities in commercial agriculture, technological innovation, or from migration.

The trend towards the “informalization” of labor markets, described above, has been observed in the rural areas as well as in the urban regions. In the Northeast, the share of salaried workers in agriculture fell from 41% in 1981 to 32% in 1997, while during the same period there was a significant increase in “unpaid” (family) workers, from 22% to 30%. Throughout the 1980s and 1990s, only 28% of the agricultural labor force was engaged in formal employment and earning a regular wage (World Bank, 2001b: 29). Furthermore, all data related to access to public services show how the rural poor are consistently worse off than urban populations in terms of access to public services. For example, among the poorest 20% of households in the rural Northeast, 75% of the household heads are illiterate, and 51% of all family members above 10 years old are also illiterate; about 10% of rural school age children are not enrolled, while rural secondary education continues to be virtually non-existent (World Bank, 2001b: 15; 23). In some of the more isolated rural regions, for example in the Amazon states, access to education is further hampered by lack of transportation for students and teachers, as well as by the dispersion of a relatively small number of children in very broad areas.

The incidence of poverty is very uneven between regions and cities in Brazil. Nearly 50% of the poor live in the Northeast region (yet they represent only 30% of the total population) and 55% live in rural areas or small urban areas (which contain 35% of the population). Although the relationship between income inequality and poverty changes across regions, the data suggest that underdevelopment is a key factor in understanding the high incidence of poverty in rural Northeast, while less inequality is the main factor explaining the relatively low incidence of poverty in the South. Over time, social conditions have improved countrywide. However, the differences between the Northeast and the rest of the country have not changed much, and the Northeast remains well below the country average on most indicators (see Table 1.3).

Similarly, the data presented in chapter 2 indicates that the distinction between urban and rural areas is essential for the analysis of poverty dynamics, particularly for understanding the importance of migration from rural to urban regions as determinants of social mobility and the role of retirement/pensions for poor rural workers. The analysis shows that poverty rates evolved differently between urban and rural areas and social groups within the rural areas. For example, the authors highlight that from 1981 to 1989, around 90% of illiterate women in rural regions were poor, independently of cohort and that a significant decrease in poverty rates was observed only from 1997 to 2001 for the two

²⁴ See among others, DaMatta (1995), Ferreira, Lanjow and Neri (2000), Henriques (2000), Paes de Barros et al. (2000, 2001), Schwartzman (2000), Von Amsberg (1999), Von Amsberg et al. (2000), and World Bank (2001).

²⁵ On the crucial role of central government in making decentralization (and other development) initiatives viable in this region of Brazil, see Tendler (1997).

oldest cohorts, which is composed of women that became eligible to receive pension benefits. The authors conclude that pensions might have played a role in explaining the reduction of poverty for the oldest cohorts of less educated people, especially in rural areas.

Table 1.3: Selected Social Indicators for Brazil and Regions, 2001^(a)

Regions / Country	Personal Nominal Income per Head (2000) (R\$/month) ^(b)	Illiteracy Rate (2001) (Percent)	Formal Employment (1999) (% of Total Employment)	Years of Schooling (2001) (Years)	Gini Coeff. Income Distribution (2001) ^(c)	Poverty Rates 1992 ^(e)	Poverty rates 1999 ^(e)
North	576.84	7.8	45.3	6.3 ^(d)	0.598	47.5	34.9
Northeast	448.45	17.7	43.2	5.3	0.617	60.6	50.2
Southeast	944.72	7.1	68.3	6.2	0.586	26.9	16.8
South	796.26	5.4	71.2	6.6	0.572	29.4	19.8
Center-West	855.83	9.2	52.9	6.7	0.622	37.2	23.6
Brazil	768.83	11.4	61.3	6.2	0.609	38.9	28.4

Source: Taken and adapted from Maia Gomez 2002 (based on IBGE, Demographic Census (2000) and PNAD (2001).

(a) Or latest year available, as stated in each column.

(b) Average monthly nominal income of householders with a non-zero nominal income.

(c) Gini Index of Personal Income Distribution of nominal income of householders with a non-zero nominal income.

(d) Urban North.

(e) Estimates by Getulio Vargas Foundation, based on IBGE / National Household Surveys.

In addition to the rural/urban and the Northeast distinctions, from the social exclusion perspective it is also important to indicate that there are other spatial/location distinctions that contribute to discrimination, poverty and overall lack of social mobility. The “Voices of the Poor” report for Brazil collected several testimonies of other forms of discrimination felt by poor people living in *favelas* (slums) in urban Brazil. One of the most common testimonies refers to the discrimination with respect to the place of residence. Several of those interviewed reported that access to a job was denied on the basis of the place of residence, or that they were afraid and ashamed to tell their boss and colleagues where they lived. Those who live in the most violent neighborhoods suffer more from discrimination by being automatically associated with criminal behavior and activities²⁶. A second source of discrimination relates to the place of origin, a type of aggression especially felt among *nordestinos* (people who migrated from the Northeast region) in São Paulo. A recent study by Perlman (2003) arrives at the same conclusions when analyzing longitudinal panel data for three *favelas* in Rio de Janeiro²⁷. The continued displacement of the rural population has resulted in the uncontrolled growth of urban slums. Currently, about 70% of Brazil’s population resides in urban areas compared to only 30% in 1950.

There is broad empirical evidence that education is a key correlate of income inequality in Brazil²⁸. The educational level of the head of the household of 63% of the poor households is no more than 4 years of schooling (even though persons with this level of education comprise a mere 42% of the

²⁶ It can be argued that the whole “favela” has become seen not only as the place of the poor, but as the place for criminality. On this, see the analysis by Corrêa do Lago (2003).

²⁷ According to the study, based on return visits to communities originally studied by the author in the early 1970s (Perlman 1976), 96% of the interviewees believe that there is discrimination based on residency (*favelas*). It is important also to highlight that the study suggests other mechanisms of labor market exclusion based on subjective value-loaded and cultural factors such as physical appearance. People living in *favelas* indicate that the main barrier to mobility is lack of access to jobs (formal or informal) and, that there is discrimination based on place of residence, clothing, weight and general appearance. These hidden and subtle sources of labor market exclusion reflect unwritten hiring practices affect both men and women seeking jobs in the formal and informal sector and, particularly in the services industry. Also, evidence from health studies looking at differences associated with the spatial concentration of poverty supports the hypothesis that place of residence influence other indicators such as health status and infant mortality through process of exclusion that focused directly on the physical, cultural and psychosocial characteristics of communities segregated from the society at large by extreme poverty (see Szwarcwald et al. 2002).

²⁸ See Almeida reis and Paes de Barros (1990), Paes de Barros and Lam (1993) and Verner et al (2001).

population). Similarly, low education level of the parents increases the likelihood of an individual being below the poverty line. Nevertheless, an additional year of schooling by parents adds only 0.3 years of schooling for their children.²⁹ This also means that the level of education generates a certain inter-generational inertia³⁰.

Chapter 2 provides a detailed analysis of the relationship between education, poverty, and income dynamics over time for different educational groups by gender and race. Changes in the average real earnings over time for each group were computed. The results indicate that schooling increases as we move to younger cohorts, indicating progress in basic education in Brazil as a growing number of youths attend school. However, the analysis shows that poverty reduction has not been uniform across age and educational cohorts. According to the data, illiterates and older cohorts tend to display more income growth, more poverty reduction and less income concentration than younger cohorts. Even so, a substantial proportion of (illiterate) households remained stuck in poverty. The oldest and illiterate cohorts have experienced greater poverty reduction over time than the young and more educated cohorts. In fact, the results show that the average incomes of those with less schooling in younger generations were reduced over time. This is explained by a number of factors, including: returns to work experience that comes with practice and age; proactive government social policies (including retirement and pensions); economic cycle effects; and household size and age composition dynamics.

According to Verner et al. (2001) workers with lower levels of education experienced a substantial decrease in returns to education while workers with a completed tertiary education saw an increase in returns to schooling. Returns to tertiary education increased sharply from 1982 to 1998, while returns to primary and lower secondary education dropped 26% and 35%, respectively. This would indicate that returns to schooling are the primary link between education and wage inequality. The impact of a more equitable distribution of schooling only influences wage inequality through the supply impact on returns to schooling. Verner's (2001) findings suggest that as long as the returns to schooling rises sharply with years of completed schooling, a sizable improvement in wage inequality will not take place. Wage bonuses associated with education are higher among those entering the market³¹. This suggests that education may enhance the chances of entering the labor market at a higher income level at the start of one's professional career, but loses power as the individual moves from one job to another over time, affecting the individual's long term social mobility.

Unemployment is a key factor of exclusion. While in 1995 the average annual unemployment rate was 4.65% (as measured by IBGE in six metropolitan regions), in the beginning of 2002 it was around 7%. Unemployment has affected most strongly the industrial sector, where formal jobs and better labor conditions are concentrated: while industrial production represented 23.7% of the total occupation in 1989, it declined to 20.6% in 2001 (SDTS, 2003). Existing data (in Chapter 2) shows that being self-employed decreases the probability of being poor, particularly for older generations when compared with informal workers (without a working card). As expected, unemployment increases the probability of being poor for the youngest cohort but not for the oldest cohort. Unemployment in Brazil has worsened dramatically since the end of the 1980s. Despite being a general phenomenon, it appears stronger among formal skilled and lower white collar workers and, particularly, among the young people (15 to 24 years old) which are the most affected.

However the total elimination of unemployment would only reduce poverty rates by approximately 20%³². Multiple studies suggest two other major forms of labor market exclusion: (i) underemployment,

²⁹ See Paes de Barros, Mendonça, Santos and Quintaes (2001).

³⁰ A similar argument has been made by Birdsall and Graham (2000) in their analysis of economic and social mobility in Latin America. They conclude that education is an outcome of past inequality, and that as such it should be treated as both a contributor to and an outcome of inequality.

³¹ See Arbache (2001).

³² See Ferreira and Paes de Barros (1999) and Paes de Barros, Corseuil and Leite (2000).

and (ii) precarious employment³³. Fifty percent of the poor live in households headed by someone who works in the informal sector of the economy (this portion comprises 40% of the total population).³⁴ The existing data indicates there is a growing pressure in the labor market to move from formal to non-formalized labor relations, along with the industrial trend of outsourcing, making labor less stable. The growth of the informal sector—which includes street vendors to workers in small companies—became more pronounced starting in the early 90s. The participation of these “informal” (no *carteira assinada* and self-employed) workers in the active economic population increased from 39.3% in December of 1990 to 48% in December of 1996, and reached 50% in 2001.³⁵ These workers tend to receive salaries below the minimum wage and fewer benefits than those in the formal sector (for example, they do not have paid vacations, access to unemployment insurance, or social insurance).³⁶ In fact, 58% of the population below the indigent line lives in families headed by workers who are not legally covered by the labor code. The data analysis in chapter 2 concludes that for illiterate workers, having a formal labor contract decreases the probability of being poor compared to that of those without a working card. According to IBGE, in the period going from May 1999 to May 2000, there was an increase of 11.5% percent in the number of workers holding a job without a contract. While the formal market was able to create 62,000 new job positions in that period, the informal one gave work to 491,000 people. These latest numbers show that the informal market for jobs has grown by an annual average of 5.2% in the last three years.³⁷

Another important change in the labor market is the increase in the demand for skilled labor, which has been seen most clearly in industries that experienced greater competition as a result of trade liberalization³⁸. This was combined with a drastic reduction in the number of less skilled jobs and a decline in wages. Most of the jobs created between 1989 and 2001 consisted primarily of non-wage jobs (domestic and autonomous labor) or of jobs that offered up to two minimum salaries. More specifically, workers with less than four years of education are the ones most affected by these trends in the labor market. Particularly affected have been the younger groups: for those between 10 and 24 years old, the unemployment rate tripled from approximately 5% in 1989 to more than 14% in 1997, and in 1999 it was around 20% (17.2% for those between 20 and 24 years old and 27.8% for those between 15 and 19 years old).³⁹

As outlined in Chapter 2, poverty reduction from 1981 to 2001 is consistently clear only for older cohorts and, as mentioned before, especially for the least educated categories. It seems that the younger the group, the less pronounced its escape from poverty. IBGE data also shows that the biggest

³³ For example, the study “Employment and socioeconomic change in the Northeast,” performed by a team of anthropologists from the National Museum-UFRJ between 1975 and 1978 tried to explore through case studies underemployment and migration patterns. See also Machado da Silva (1971), DaMatta (1995), Ramalho (1993), Santos (2000), and Sorj (1993).

³⁴ According to the *Departamento Intersindical de Estatística e Estudos Sócio-Econômicos* (DIEESE 2001), the transformation of the labor market is central to Brazil’s social inequalities and poverty.

³⁵ See Presidência da República, (1997: 7) and Ramos (2002: 4). According to IBGE (2002b), in the period going from May 1999 to May 2000, there was an increase of 11.5% in the number of workers holding a job without a contract. While the formal market was able to create 62,000 new job positions in that period, the informal one gave work to 491,000 people. These latest numbers show that the informal market for jobs has grown by an annual average of 5.2% in the last three years. If this trend continues, in approximately a decade, the number of jobs in Brazil will be split in half between those working with a contract with all social benefits and those in an informal job. Today, 27.8 percent of workers have informal jobs. The service and commerce sectors are the main ones hiring without a contract.

³⁶ Earning differentials between workers with labor registry and those who lack it reach 83% (see Neri et.al., 2002: 11, 26). Recent studies also indicate that about 45.5% and 50.7% of formal workers receive food and transportation aid, respectively, while these figures are only 17.5% and 15.3% for “informal” workers (Tannuri-Pianto and Pianto, 2002: 7).

³⁷ According to Márcio Pochmann (2002) in eight years the number of jobs in Brazil will be split in half between those working with a contract with all social benefits and those in an informal job. Today, 27.8% of workers have informal jobs. The service and commerce sectors are the main ones hiring without a contract.

³⁸ Verner et al (2001) indicates that the available supply of highly skilled labor inadequately meets the existing demand. Furthermore, the existing data suggest that there has been a deceleration of enrollment and a declining efficiency of the Brazilian tertiary education system during the 1990s.

³⁹ For further details, see Pavcnik et.al. (2003), Pereira, Bolzon and Porto (2001), Rocha (2000), and SDTS (2003).

concentration of unemployed is among the very young. Almost 50% of those unemployed are youngsters who are 24 years old or younger. About 20% of the population in Brazil is between 15 and 24 years old. According to IBGE 35% of those under 14 (that is, about 21 million children) live in poverty and no less than 8 million youth between 15 and 24 years old live on less than a dollar a day⁴⁰. Brazil's infant mortality rate is 36 deaths per 1,000 live births (UNICEF 2001) and over 60% of children live in homes with inadequate sanitation. Almost one third of Brazil's children and youth are illiterate, a condition that reinforces their marginalization. Brazilian statistics show that 2.8 million children between 7 and 14 years of age do not attend school and of those who are registered, only 10% complete grade school⁴¹.

Along with young people, the most vulnerable groups to the changes in the labor market also include women and the non-white portions of the workforce. PNAD 1996 data shows that the proportions of workers earning less than one minimum monthly wage according to race and gender were the following: 68.7% of the total black women workforce; 64.6% of white women; 34.5% of black men; and only 24.2% of white men. In addition, women and non-whites participate more in the "informal" sector compared to whites.⁴²

The participation of women in the labor market has grown continuously in the last two decades (up to 49% in 1999), although it remains inferior to men in all regions. Another positive change has been the steady (but slow) decrease in the wage gap between men and women from 1988 on. While in 1977 men earned approximately 70% more than women, in 1997 this differential had fallen to approximately 25%, diminishing at an average rate of 1.4% per year.⁴³ In spite of this tendency towards the diminution of the wage gap, gender discrimination still needs to be taken into account in explaining earnings differentials. The gap prevails even when education and hours worked are taken into account, and indeed increases with more years of education. Other factors outside the labor market, such as marriage, children or work interruptions, may explain part of this gap. This reinforces the hypothesis that discrimination is also practised where there is competition for better jobs or positions.⁴⁴

The Brazil Gender Review (World Bank 2002) indicates that the country continues to register one of the widest gender wage gaps in Latin America despite the higher levels of education of women. Trade liberalization has also affected the gender division of labor. While, female participation in the labor market has increased, female unemployment and participation in the informal sector has increased too. According to Cunningham (2000), women are most likely to work in the informal sector, as men move to the self-employment sector. In fact, 70% of the economically active women work in the tertiary sector. While women have gained space in the labor force during economic expansion, they are at disadvantage with regard to absolute mobility rates. Women have been included in less privileged positions compared to men, particularly in the traditional productive sector, although they have also occupied non-manual positions, especially in the public sector. Such differences result from objectively unequal opportunities in the employment structure, caused by gender segregation.⁴⁵ Chapter two analyses income changes over

⁴⁰ About 70% of the poor live in households with a dependency ratio greater than 1.5. On this see Santos (2002) and Chapter 2, which show that the dependency ratio is a powerful variable explaining poverty incidence.

⁴¹ A related phenomenon is that more than 50% of girls without schooling between the ages of 15 and 19 are already mothers. Teenage motherhood is a growing problem in Brazil that contributes to poverty. Recent statistics (IBGE 2000) show a 19% increase in the birthrate for girls aged 15 through 19 from 1993 to 1998. The birthrate among girls aged 10 to 14 leaped 31% during the same period. Overall, the number of births among girls aged 10 through 19 rose from 565,000 in 1993 to 698,000 in 1998, the latest year for which statistics are available. These statistics, combined with the fact that about 40 percent of pregnant teenagers abandon school, indicate the seriousness of the problem.

⁴² See do Valle Silva (2000); World Bank (2002); and Soares (2000).

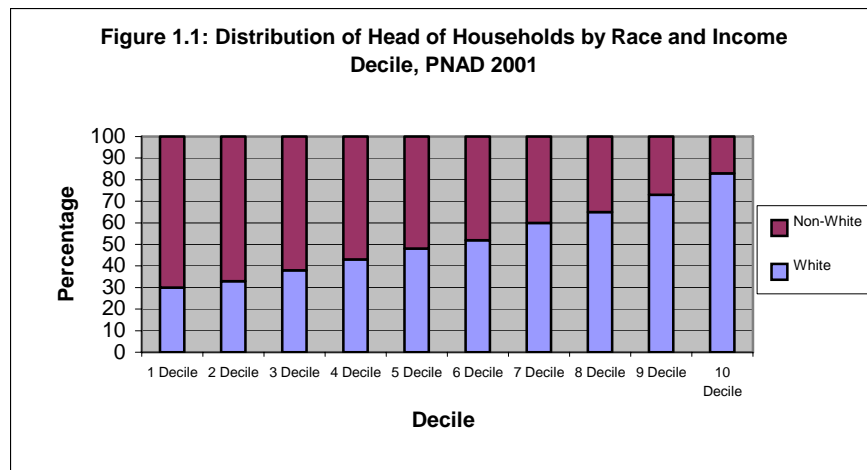
⁴³ See Leme and Wajnman (2000).

⁴⁴ See Singer (1997) and World Bank (2002).

⁴⁵ For further details, see Scalon (1999), who analyzes gender mobility in Brazil. Similarly, Oliveira and Machado (2000) show that discrimination by race and sex in the labor market determines different paths of professional development, and consequently of well-being.

time for different cohorts by educational level and gender. The data presented by Bonelli et al. indicates that while the average household per capita income of women in a given cohort-education group is not statistically different from that of men in the same cohort-education group, there is gender discrimination in the Brazilian labor market (on average, women earn less than equally qualified men).

Afro descendants constitute approximately 45% of the Brazilian population. They earn half of the average income of the white population, a proportion that has remained more or less stable between 1995 and 2001.⁴⁶ Prejudice and racial discrimination are key factors in the definition of the exclusionary processes which characterizes Brazilian society. Sixty two percent of the poor live in households headed by blacks. The non-white population is clearly disadvantaged: there are substantial differences in the economic levels of whites and non-whites (see Figure 1.1). While the variation of the differences of income attributed to discrimination in the labor market may be lower than in other places, a substantial portion of these inter-racial differences in Brazil seem to be caused by discriminatory practices.



Social exclusion of non-whites is not only a social or economic problem, but also a racial (and cultural) issue, and must be recognized as such. Awareness of racial discrimination has increased across social groups, particularly during the last two decades. The national discourse of Brazil as a “racial democracy”, so popular in the past, has given way to expressions such as “Brazilian-style racism”⁴⁷, which acknowledges discrimination while at the same time trying to grasp the specific ways in which racism leads to social exclusion. In addition to educational barriers, the black population also suffers from discriminatory barriers that undermine their access to the labor market and leave them receiving unequal wages. Discrimination explains almost one third of the difference between whites and blacks in terms of the probability of obtaining a job in the formal sector; as for the wage gap, it explains 11% of the gap for workers in the formal sector and 24% for the self-employed.⁴⁸ When race and gender discrimination are combined, white males are clearly privileged, while black females are clearly the ones who face the greater barriers towards social inclusion. These data confirm the testimonies of poor urban women in the *Voices of the Poor* project, who told of the race discrimination they suffered when seeking a job.

Poverty rates observed for non-whites are much higher than those of white individuals with the same levels of schooling. For example, Chapter 2 shows that while the proportion of poor among

⁴⁶ Poverty is much greater within the black population: the probability of a white being poor is around 22%, but for black individuals the probability is 48%, numbers that have also remained stable during the last years (World Bank 2001). For further analysis, see, among many others, Hasenbalg and do Valle Silva (1988), do Valle Silva 2000, and Jaccoud and Beghin (2002).

⁴⁷ The myth of racial democracy in Brazil has been discussed in detail by Skidmore (1992) and DaMatta (1997).

⁴⁸ See Jaccoud and Beghin (2002) and Soares et.al (2002).

illiterates ranges from 50 to 70% for whites in 2001, the rates for non-whites vary from 70 to 85%. The non-white population has a higher probability of being poor. Furthermore, reductions in the incidence of for non-whites was smaller and more circumscribed (only between 1997 and 2001) than for whites. In sum, non-whites households have experienced higher poverty rate levels and less poverty reduction over time. These results suggest that racial prejudice is a significant mechanism that contributes to persistent poverty and marginalization of non-white population in Brazil.

In addition to arguing that Brazil's poverty is not so much lack of resources as its distribution, we also maintain that attention must be given to institutional mechanisms that contribute to poverty by diverting public expenditures from reaching the poorest sectors. Approximately two thirds of the federal budget is allocated to "social expenditures"—i.e, health, education, labor, social security and social assistance policies—which corresponds to around 20% of the gross internal product. Table 1.4 shows how these resources have been distributed among the social areas between 1995 and 2002. Approximately two thirds of total social expenditures are directed to social security, and this percentage has been steadily increasing in the last years.

Table 1.4: Social Public Expenditures, 1995-2002 (\$Reais 000 and % of Total)

Sector	Expenditures							Law 2002
	1995	1996	1997	1998	1999	2000	2001	
Health	9,917,720	10,299,598	12,840,876	12,814,002	15,519,723	17,573,578	20,887,696	18,308,395
	18.6%	16.5%	18.4%	15.8%	17.0%	18.1%	19.1%	15.8%
Education	5,142,442	5,323,310	5,626,357	9,721,486	10,603,113	5,998,498	6,914,761	7,873,867
	9.6%	8.5%	8.0%	12.0%	11.6%	6.2%	6.3%	6.8%
Assistance and social security	37,356,476	45,088,733	49,177,928	56,535,212	63,494,218	70,618,005	79,903,252	88,051,243
	69.7%	72.2%	70.4%	69.8%	69.5%	73.0%	73.0%	75.9%
Agrarian Reform	860,749	908,997	1,175,229	1,088,376	892,781	911,102	1,146,240	1,270,585
	1.6%	1.4%	1.7%	1.3%	1.0%	0.9%	1.0%	1.1%
Sanitation and Housing	279,973	859,689	1,060,239	855,955	864,482	1,767,982	590,552	473,878
	0.5%	1.4%	1.5%	1.1%	0.9%	1.8%	0.6%	0.4%
TOTAL	53,557,360 100%	62,480,328 100%	69,880,629 100%	81,015,030 100%	91,374,318 100%	96,869,164 100%	109,442,500 100%	115,977,969 100%
% of Total Public	22.04%	21.60%	17.86%	16.34%	15.52%	15.71%	18.13%	17.83%

Source: Based on data from Ministério do Planejamento, 2003 (www.planejamento.gov.br/orcamento).

However, von Amsberg et.al (2000) shows that only about 13% of the total amount of social public expenditures benefits the poorest quintile of the population. In fact, the most important criticism of public expenditure in relation to poverty is that, in general terms, it is not focused on the poorest families. Expenditures in social security, for example, have been strongly criticized because they benefit more the

wealthiest. Only about 8% of the total amount spent on pensions and public servant benefits was received by the poorest quintile in 1997 (World Bank, 2001a:22).⁴⁹

Nevertheless, the results of this research indicate that the reduction in poverty rates between 1981 and 2001 was mainly concentrated among oldest cohorts, especially for the less educated as a result of the significant increase in the ratio of pensions/retirements earnings over income from all sources. Note that for the oldest cohort (1940-44), the importance of retirement earnings increased from 2.3% in 1981, to 34.6% in 2001, particularly for women and in rural areas. Bonelli et al. argue in Chapter 2 that the ratio of pension to income from all sources significantly decreases the probability of an illiterate individual being poor in 2001.

The 1988 Constitution introduced significant changes to social security in Brazil by extending the right to receive retirement benefits to rural workers. As a result, there was a substantial increase in social security coverage during the 1990s. The effect of this policy change shows in the results of this research, as there was a significant increase in the ratio of pensions/retirements earnings over income from all sources for all cohort-schooling-gender groups between 1981 and 2001. Two key factors behind the observed reduction in poverty are thus the extension of social security coverage to rural areas in the early 90s and the increase of the real value of the minimum wage after the Real Plan. In spite of the existing bias in social expenditures, the expansion of pension/retirement benefits to the poor, particularly in rural areas, had a positive impact in terms of poverty alleviation (see details below).

1.4.2 *Mobility, Legitimation, and Perceptions of Inequality*

Even though absolute mobility rates have increased as a result of the industrialization process experienced by Brazil, relative social mobility within the poorest has not change as much.⁵⁰ Social mobility between generations is greater in the more developed regions of the country, which adds to the regional differentiations and the lack of mobility of the poorest sectors.⁵¹ Brazilian mobility is characterized by short-distance mobility, thus comprising classes with homogeneous origins. There is a clear division between non-manual and manual sectors which prevents workers shifting from unskilled labor to the blue-collar and non-manual sectors. In short, Brazil is a society organized in well-demarcated classes, with a certain degree of fluidity within class divisions but with significant rigidity against crossing such boundaries. Such characteristics have tended to become dominant with the slowdown in structural changes marking the period from the 1950s through the 70s. Race ("white vs. non-white") is a relevant factor in explaining the chances of social mobility. The evidence suggests whites are much more efficient at converting their experiences and educational investments into monetary returns, while non-whites suffer increasing disadvantages in climbing the social ladder.⁵²

This study looks at income dynamics over a 20 year period to approach the issue of social mobility and inequality. The results presented in the next chapter indicate that average per capita incomes increased for all groups in the three oldest cohorts (1940-44, 1945-49 and 1950-54), particularly

⁴⁹ The Final Report of the Commission created in the Brazilian National Congress in 1999 to study the causes of social inequalities concluded that in order to achieve better upward mobility it would be necessary to remove political-institutional barriers to the promotion of upward social mobility by, among other measures, redirecting social expenditures in view of their targeting efficacy (Henriques, 2000a:4).

⁵⁰ Contrary to common belief, economic expansion and educational reforms have not created a meritocratic society; on the contrary, unequal opportunities and transmission of positions within the elite have persisted. For detailed analyses of social mobility in Brazil, see Costa Ribeiro and Scalón (2001), Ferreira and Paes de Barros (1999), Pastore and Valle do Silva (2000), Pastore and Castro (1983), and Scalón (1999).

⁵¹ Studying the country's six major metropolitan regions, Andrade (1997) reinforces arguments that the special heterogeneity of social mobility is low between generations and regions, adding that Rio de Janeiro and Recife are the regions with the worst performance (i.e., less ascending mobility and more descending mobility).

⁵² Valle do Silva (1997, 2000) shows that the social evolution of whites and blacks is significantly different. The principal factors that explain this are, in order of importance, level of education, first job and labor market experience. This author also shows that an individual's path is strongly determined by family income at birth, but not by his parents' occupation.

those with less schooling. Average income gains characterized only a limited number of cohorts located in the initial steps of the educational ladder. At the same time, the income ratios between the final and initial years for all cohorts decrease as we move from older to younger cohorts.

The analysis of income rank correlations over time indicate that groups of households saw little change in their relative position. The data presented in Chapter 2 shows very high income ranking correlations, indicating that the positions of each cohort-gender-schooling group changed very little across years regardless of year of birth, schooling level, gender and ethnicity. Only when the regional and rural dimensions are added to the analysis do some differences begin to emerge.

Income inequality, as measured by the Gini index, decreased for all cohorts from 1981 to 2001, despite some fluctuations. Income inequality is smaller and fell more for the oldest cohorts. Older cohorts experienced more income growth and less income concentration than younger cohorts. However, the data also shows that the proportion of poor decreased only to 62% (cohort 1940-44), to 68% (1945-49), to 72% (1950-54), to 76% (1955-59) and to 79% (cohort 1960-64) in 2001. These shares are still very sizeable ones, of course, indicating that at the end of the period analyzed the vast majority of people in households of the five groups considered here that belonged to the group of illiterates still lived below the poverty line. In sum, the analysis of income dynamics suggest that there is little social mobility over time and that income growth is negatively correlated with initial income levels, that is, earnings of the richest groups growing more than those of the poorest.

What do Brazilians think about these facts? What is their perception of inequality? Which factors are perceived as determinants of income inequalities? Are these perceived as fair or unfair? What are the consequences of these perceptions? Chapter 3 explores these issues. These questions can only be answered by understanding how Brazilian society has produced cultural values that allow inequality and the population to come to terms with one of the highest levels of income disparity in the world.

Brazilians see their society as a very unequal one. There is no mystification about the extreme disparities that exist in Brazil. According to the existing data, about 96% of the people agrees or strongly agrees that income differences in Brazil are too large. All social groups share this view, irrespective of educational level, gender, income, mobility experience or expectation, rural or urban residence. Yet despite this clear and massive perception of existing income inequality, there is a normative and legitimating discourse that helps to explain why inequality is tolerated and why Brazilian society allows the growing inequalities among classes. Also, as it will be shown in Chapter 3, the same discourse places in the state all responsibility for resolving this issue by ensuring that the rules that would allow mobility in fact apply, without questioning necessarily if the rules themselves are enough to bring about the changes required.

There is a tension between the cognitive dimension (which clearly identifies inequality) and the lack of social mobility for the poorest sectors, on the one hand, and the normative discourse that partly explains why there is such differences and which mechanisms impede breaking it down, on the other. This difference between the normative and the cognitive level would explain why people identify the existing great gaps in equality and yet assume that the rules are fair and are willing to play by them.

These data reflect a different facet of social exclusion, which is represented by the process of political exclusion, or the lack of appropriate channels of representation and participation for the most vulnerable sectors of the population. However, this poses a big challenge, because while it has been recognized by many that good governance and the fight against social exclusion would benefit from more participatory forms of public policy design and implementation, the public discourse tends to place all the responsibility on the state rather than civil society. Responding to this requires a change in attitude, priorities, and concrete policy responses from both government and civil society.

The shift in political culture initiated with the process of democratization during the 1980s culminated in the design of the new political system and the Constitution of 1988. However, during the

1990s, the cohesion of poor communities (particularly those in urban areas) has shrunk as a result of an increase in violence and conflicts within families and among neighbors.⁵³ Political exclusion has had deep effects on the relationship between residents of poor communities, and between those communities and the public arena.⁵⁴ In this respect, there is plenty of evidence showing how poor people have suffered from unequal access to fair judicial processes, unequal treatment on the part of public bureaucracies, and how this has, in turn, affected their capacity for collective action.

1.5 Conclusions and Recommendations

Inequality, exclusion and lack of mobility are unfortunate characteristics of life for Brazil's poorest and minority citizens. They begin their economic lives far behind their more privileged counterparts, and despite "rising tides" of potential opportunity generated by economic growth and improved education, remain mired in poverty, unable to catch up, or to envision a future in which at least their children's lives might be better. While recognizing how pervasive and debilitating the problem is, the huge inequalities that exist in Brazil continue to be perceived as the result of fair rules and poor administration; as long as they do so, there will be little change on the conditions that generate and sustain inequality and poverty. All individuals and civil society organizations in general need to assume that they (in cooperation with their governments) have direct responsibility for creating the conditions for change. Policy changes are needed to ensure fair opportunities for everyone, but in the end each one of us is responsible for helping create the conditions that make policy changes both desirable and possible.

This study seeks to provide not just a detailed diagnosis of the problem of inequality, exclusion, and restricted mobility, but to draw on the best available evidence to offer some concrete policy recommendations for change, and more specifically, to create an empirical base which can be the basis for a informed conversation among Brazilian citizens, scholars, and policymakers. There is an emerging consensus that the fight against poverty in Brazil cannot be dissociated from the fight against inequality; indeed, income inequality is a main restriction to poverty reduction in Brazil. As such, redistributive policies (in addition to growth policies) are essential to enhancing social inclusion. This implies focusing on developing institutions (market, political, social and cultural) and delivery mechanisms (World Bank 2003b) that will sustain progress towards a more inclusive, accountable and cohesive society. The areas to which specific attention should be given include:

(a) Ensuring Fair Access to Labor Markets. Structural factors such as race-based discrimination are at the root of labor market exclusion. Some combination of affirmative-action-type policies, along with mechanisms to minimize the risks and vulnerability associated with living and working in the informal sector, may be warranted. The demands for greater flexibility in labor markets must be balanced with the need for more jobs with greater security. An issue on which there is considerably consensus refers to the need to provide greater incentives for employers to hire young people. Several government programs provide incentives for employers to give young people their first jobs, but much more is needed.

(b) Facilitating Access to Assets. This is a key avenue for increasing social inclusion and diminishing inequality. In terms of social mobility, the land reform program is probably the most important public policy being implemented in Brazil with reference to the poor rural population. It is essential to expand and consolidate land redistribution through the existing scheme, and/or to use other mechanisms that will allow the rural landless to be settled and enhance the ability of small farmers to either buy or rent land to increase the size of their production units.

(c) Expanding and Improving Social Security. One of the most important public programs designed to provide a safety net especially for the most vulnerable part of rural poor populations, is the increased coverage of social security. This research has shown the significant positive impact that pension and retirement earnings have had on older and less educated generations. Although social

⁵³ Cf. World Bank (2000) and Zaluar (2000); see also Scheper-Hughes (1992).

⁵⁴ Perlman (2003) indicates that "in 1969, 36% of those interviewed said the Brazilian people do not have the capacity to choose their candidates; twenty years later that number had risen to 51%".

security has primarily benefited the wealthiest, the impact of pensions on poverty alleviation, particularly among the most vulnerable, is significant. This argument should be enough to consider strengthening this instrument and improving its targeting to ensure that the poorest benefit.

(d) *Building Human Capital.* The data in this volume confirms the importance of education in fighting poverty, a fact clearly accepted and valued by all social groups. However, the data shows the diminishing returns to secondary education, while returns to tertiary education have increased. There is a need to continue expanding coverage of basic and secondary education and to strengthen vocational and tertiary education, as the job market increasingly demands an ever more qualified labor force. At the same time, it is essential to improve the quality of the education received by marginalized groups. The quality of the education provided across social groups needs to be improved in order to provide equal opportunities and to achieve social mobility.

(e) *Focusing on Youth.* Most young people from families under the poverty line see that their opportunities are not much different from those their parents had, or may even be worse. At the same time, there is a lack of social recognition of the roles and rights of young people, reinforced by the predominance of negative stereotypes of marginal youth in the media. There is a need for developing the entrepreneurial capacity and skills of young people by facilitating access to productive resources and assets, and developing their managerial skills. Second, it is important to decrease social risks, specifically dropping out of school and becoming pregnant during the teenage years. Finally, it seems essential to strengthen the social capital and civic participation (effective representation) of poor and marginal youth in policy decision making and in civil society organizations more generally.

(f) *Decreasing Race Inequality and Discrimination.* All data available demonstrate that, without specific policies targeted at diminishing gender and race-inequality—be it based on discriminatory practices or not—improvements happen too slowly, if they happen at all. Affirmative action policies and targeted programs are alternatives to fighting social exclusion based on race, along with changes in policies that widens the scope of labor rights and strengthen citizenship.

(g) *Strengthening Participation and Citizenship.* Exclusionary processes are directly related to lack of political representation and voice. The most vulnerable groups lack appropriate channels of representation and participation, particularly the rural poor, poor women, afro-descendant and indigenous populations, and poor and marginal youth. Few policies and programs have sought to systematically elicit continuous participation and develop ownership. Experience indicates the importance of supporting new forms of association and non-institutionalized forms of participation, directly linked to the exercise of public authority, such as the participatory budgeting experience. Establishing partnerships between state and civil society would be particularly important to modify the predominant perception of the state as the only agent responsible for decreasing poverty and inequality.

The current political climate offers a unique opportunity to open a new and more informed national dialogue on the dynamics of exclusion and mobility, one to which all Brazilians must contribute if a politically supportable consensus is to be forged regarding how best to respond to an issue with clear instrumental and intrinsic significance for Brazil's present and future well-being.

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