

## Is income inequality decreasing in Brazil?

In the article entitled *Poor Dad, Poor Son? An Analysis of Intergenerational Income Mobility in the 1982 Birth Cohort in Pelotas, Rio Grande do Sul State, Brazil*, published in this edition of *Cad Saúde Pública* (p. 1225), Tejada et al. estimated intergenerational income mobility in a medium-sized Brazilian city. The authors used data on 1,133 father/son pairs for whom they had information on the father's income in 1984 and the son's income in 2004, or 20 years later, when the sons were an average of 22.7 years old. Income in Brazilian Reais was deflated to November 2005 values based on the country's Expanded Consumer Price Index (IPCA). Statistical analysis used linear regression and quintile regressions to estimate income persistence between generations and to control for confounding variables. The authors estimated income persistence at 0.20 based on linear regression, while observing that income persistence was not linear when measured by quantile regression, but was higher at the income extremes (0.29 for the poorest and 0.30 for the wealthiest) and lower in the middle-income strata (0.11), thus displaying a U-shaped effect. We know that the higher the intergenerational income persistence, the lower the intergenerational mobility, meaning that fathers are "transmitting" their social capital and monetary wealth to their sons. The more unequal a society, the more persistent income tends to be from one generation to the next. Previous studies have estimated that Brazil has one of the world's highest levels of intergenerational income persistence<sup>1</sup>, consistent with the country's heavy social inequality. In 1984, Brazil's Gini index was 58.8, dropping only slightly to 56.9 by 2004. However, recent data suggest that the country's social inequality has decreased substantially. In 2012 the Gini index reached 52.6<sup>2</sup>. The current article demonstrates that social inequality in a middle-income Brazilian city is decreasing, since intergenerational income mobility has increased, especially among the middle-income strata, and that income persistence has decreased. In other words, the older generations are no longer succeeding in "hereditarily" transmitting their wealth to their children at the same historical rate. Is the old Brazil of the "hereditary captaincies" finally becoming more equal? Are we Brazilians really experiencing a continuing process of income transfer from the wealthiest to the poorest? The article suggests so, but the authors call attention to the fact that the fathers' income was recorded in a single year, 1984, while the sons' income was recorded at the beginning of their working age, at 22 or 23 years. When young adults enter the labor market, their income tends to be lower than after they have grown older. The two factors tend to underestimate income persistence and thus overestimate social mobility. One of the article's strengths was the use of quantile regressions to estimate the nonlinear effects of income persistence, since we know that the results of regression analyses are highly dependent on the models' adequate parametrization<sup>3</sup>. The current study makes an important contribution to the literature by suggesting that intergenerational mobility increased in a middle-income Brazilian city in 2004, especially in the middle-income strata. These data corroborate other studies indicating that income inequality decreased in Brazil between 2003 and 2011<sup>2</sup>. The existing data suggest that this reduction may be explained by the country's conditional cash transfer programs, a government policy of increasing the real value of the minimum wage, growth in average years of schooling, and the private economy's dynamics (largely fueled by high international commodity prices), among other factors. However, this downward

trend in inequality may have stalled since 2012<sup>2</sup>. Piketty<sup>4</sup> showed that social inequality has increased in high-income countries since the 1970s and that wealthier parents are increasingly able to transmit their wealth to their children. The social and political pact that accompanied the reduction in social inequality in Brazil appears to have faltered, considering the incumbent candidate's narrow victory in the recent presidential elections and the protests on the streets of dozens of Brazilian cities. According to Piketty<sup>4</sup>, when return on capital outstrips the economy's growth, inequality tends to perpetuate itself or even increase. The grand super-cycle of high commodity prices that benefited Brazil appears to have run its course<sup>2</sup>. The Brazilian economy's growth rate has slowed down, and by all bets it will be negative this year. The big question that emerges from the study by Tejada et al. is whether in Brazil, one of the world's most unequal countries, this downward trend in social inequality has reached its limit and will reverse, as occurred more recently in high-income countries. At any rate, in a heavily patrimonial country, the evidence that intergenerational income transmission has lost its force (especially in the middle class) is good news. If this process continues, Brazil may succeed in disarming the trap of low growth and become a more egalitarian society<sup>2</sup>.

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