

THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND INEQUALITY IN
BRAZIL CONSIDERING SOCIOECONOMIC POLICY CHANGES,
1992-2012

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ABSTRACT

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Brazil is an interesting case to examine the relationship between economic growth and inequality. Obviously, it is one of the states to develop gradually over the last decades and be expected to be a rich state in the future. On the other hand, for centuries, it has had huge individual and regional inequalities. However, with economic growth in the last decades, inequality in Brazil has started to decline. For this topic, Simon Kuznets is one of the most famous economists. He basically argued that at the beginning, economic growth leads to inequality. However, after reaching a certain welfare level, inequality starts to decline. In this point, I examined whether inequality in Brazil began to decrease with economic growth or not; because although the Brazilian economy started to grow many times, its inequality had never decreased. Instead of decreasing, its inequality had increased. In contrast, during the period of the Cardoso and Lula governments, inequality began to decrease in Brazil because its socioeconomic policies changed. It is true to say that in the last twenty years, especially both with Cardoso and Lula, Brazil changed its economic policies and started to use neoliberal policies. In addition, Brazil started to focus more on social assistance programs. So, I examined whether socioeconomic policy changes have any effect on the decrease of inequality or not. I reached the conclusion that inequality in Brazil starts to decrease with socioeconomic policy changes which also increase the growth of its economy.

Keywords: Economic growth, Inequality, Kuznets theory, Cardoso, Lula

ÖZ

1992-2012 YILLARINDA SOSYOEKONOMİK POLİTİKA DEĞİŞİKLİKLERİNİ GÖZ ÖNÜNDE BULUNDURARAK BREZİLYA'DAKİ EKONOMİK GELİŞME VE EŞİTSİZLİK İLİŞKİSİ

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Brezilya, ekonomik büyüme ve eşitsizlik arasındaki ilişkinin araştırılabileceği ilginç bir örnektir. Son on yıldır kademeli bir şekilde gelişen ülkelerden birisi olmakla beraber gelecekte zengin bir ülke olması da beklenmektedir. Öte yandan, yüzyıllar boyunca Brezilya büyük bireysel ve bölgesel eşitsizliklere sahne olmuştur. Ama son on yıldaki ekonomik gelişmeyle beraber, Brezilyadaki eşitsizlik azalmaya başladı. Bu konuyla ilgili, en ünlü ekonomistlerden biri olan Simon Kuznets ekonomik gelişmenin başta eşitsizliğe yol açtığını savunmuştur. Ancak, belirli bir refah düzeyine ulaşıncaya kadar eşitsizliği azalmaya başlayacağını söyler. Bu noktada Brezilya'daki eşitsizliğin ekonomik büyümeyle azalıp azalmadığını araştırdım, çünkü Brezilya ekonomisi zaman zaman büyümüş olsa da eşitsizlik asla azalmamıştır. Eşitsizlik ekonomik büyümeyle birlikte azalmanın aksine artmıştır. Bu sefer Brezilya'daki eşitsizlik, sosyoekonomik politika değiştiğinden azalmaya başlamıştır. Son 20 yıldır Brezilya'nın ekonomik politikalarını değiştirdiğini ve neoliberal politikaları kullandığını söylemek mümkündür. Ayrıca Brezilya bu politikalarla beraber sosyal destek programları üzerinde yoğunlaşmaya başlamıştır. Bu noktadan itibaren sosyoekonomik politika değişikliklerinin eşitsizliğin azalmasına ilişkin bir etkisi olup olmadığını araştırdım. Neticede Brezilya'daki eşitsizliğin ekonomik büyümeden çok sosyoekonomik politika değişiklikleriyle azaldığı sonucuna vardım.

Anahtar Kelimeler: Ekonomik gelişme, Eşitsizlik, Kuznets teorisi, Cardoso, Lula.

To My Parents

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LIST OF ABBREVIATIONS

CCT	Conditional Cash Transfer
ECLA	The Economic Commission for Latin America
FDI	Foreign direct investment
FGV	Getulio Vargas Foundation (Fundação Getulio Vargas)
Fundeb	Education Maintenance and Development Fund (Fundo de Manutenção e Desenvolvimento do Educação Basica)
Fundef	Basic Education Maintenance and Development and Teachers' Fund (Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magisterio)
GDP	Gross Domestic Product
GPT	General Purpose Technologies
HDI	Human Development Index
IMF	International Monetary Fund
INCRA	National Institute for Colonization and Agrarian Reform (Instituto Nacional de Colonização e Reforma Agrária)
ISI	Import Substitution Strategy
MCMV	My house my life (Minha Casa Minha Vida)
MDA	The Ministry of Agrarian Development (Ministério do Desenvolvimento Agrário)
MDS	The Ministry of Social Development and Fight against Hunger (Ministério do Desenvolvimento Social e Combate à Fome)
PAA	The National Food Procurement Program (Programa de Aquisição de Alimentos)
PAC	Growth Acceleration Program (Programa de Aceleração do Crescimento)
PPP	Purchasing power parity
PRODEA	Program for Emergency Distribution of Food (Programa de Distribuição Emergencial de Alimentos)
PRONAF	The National Program for Strengthening Family Agriculture

(O Programa Nacional de Fortalecimento da Agricultura Familiar)

PSDB	The Party of Brazilian Social Democracy (The Partido da Social Democracia Brasileira)
PSF	Family Health program (Programa Saude da Familia)
PT	The Workers' Party (The Partido dos Trabalhadores)
SNAS	The National Secretary of Social Assistance (Secretaria da Assistencia Social)
UNDP	United Nations Development Program

1. INTRODUCTION

This thesis seeks to examine the relationship between economic growth and inequality. In this point, I chose Brazil as a case to study this relationship. Brazil is an interesting case to investigate because it has had huge individual and regional inequalities for centuries. In addition, it is one of the states to develop and expected to be a rich state in the future. That is why Brazil offers itself as an interesting case to study on the relationship between economic growth and inequality. In fact, to be able to understand this, I was going to research socioeconomic policy changes in Brazil between 1992 and 2012.

In order to understand the relationship between economic growth and inequality, I looked at a specific question of what the major cause of reduction in inequality in Brazil is. The first way to test this question is Kuznets' theory. Kuznets is one of the most famous economists about the relationship between economic growth and inequality (Barro, 2000), so I was going to test this relationship by considering Kuznets' curve. Kuznets' theory explains this relationship with an *inverted U curve* (Deininger and Squire, 1998). According to this theory, economic growth first generates increasing inequality, but after reaching a certain welfare level, Kuznets claimed that inequality starts to decline. With this first way, I tried to find whether Kuznets' theory helps to explain the relationship between economic growth and inequality in Brazil or not. Specifically, I aim to see whether economic growth in Brazil resulted in a decrease of inequality as Kuznets states or not.

If it is claimed that Brazilian inequality starts to decrease because of economic growth, it is essential to remember that this kind of growth is not the first in Brazil. The Brazilian economy had high growth several times; in contrast, its inequality had never decreased. Instead of decreasing, its inequality had increased. At this point, there had to be another cause which affects this kind of decrease in inequality. In this case, it can be said that in the last 20 years, both with Cardoso and Lula, Brazil changed its socioeconomic policies to solve traditional problems of Brazil which are poverty, inequality, corruption and inflation. So I chose socioeconomic policies as a second way to test my research question. In this way, I tried to find whether socioeconomic policy changes in Brazil have an effect on the decrease of inequality or not.

At the beginning of the 1990s, Brazil was an example for political and economic chaos for the world. In addition, it had really huge problems with poverty and inequality and these problems were one of the most important development challenges for Brazil. However, when Cardoso came to power in 1995, something started to change in Brazil. Brazilian economic policies became much more liberal, because Cardoso favored neoliberalism although he was coming from a social democratic political background (Vanden and Prevost, 2009). On the other hand, in addition to neoliberal policies, he focused on social assistance programs for resolving poverty and inequality problems. During Cardoso's period, the economy of Brazil grew slowly. Yet, it can be also said that Brazilian inequality also started to decrease gradually. After Cardoso, Lula came to power in 2003. Contrary to Cardoso, he came from the leftist politics. So expectations from Lula were different than from Cardoso in terms of policies. However, he used the same economic policies as Cardoso

(Vanden and Prevost, 2009). At the same time, like Cardoso, Lula also focused on social issues and prepared some programs to decrease inequality. The Brazilian economy started to grow importantly over the last decade; in addition, inequality started to decrease as well. So from this viewpoint, it is essential to learn whether socioeconomic policy changes have any effect on the decrease of inequality in Brazil or not.

With this research, I examined the relationship between economic growth and inequality in Brazil. In my point of view, although economic growth in Brazil helped to decrease inequality, I claim that socioeconomic policy changes have had much more effect on this decrease. As a result of this research, I reached the conclusion that Kuznets' theory fails to explain the relationship between economic growth and decreases in inequality because essentially it was socioeconomic policy changes that had an effect on the decrease of inequality in Brazil. Therefore, economic growth does not automatically reduce inequality. There is a need for the state to play a role with specific attention to inequality.

This study is important because it will help people to understand the relationship between economic growth and inequality. In other words, with this work, it can be understood how Brazil began to decrease its huge inequality. In this point, the relationship between socioeconomic policies and inequality can be understood. In fact, by using the case of Brazil, we can begin to make comparisons with other cases. To put it differently, findings of this research can be extended to and implemented in other cases. In addition, this study can be useful for governments whose nations have high inequalities to implement socioeconomic policies like Brazil's to decrease their inequality level.

The paper is organized as follows. Chapter two begins with the conceptual and theoretical framework. In that part I give conceptual and theoretical information about the study and I explain by using these methods how I studied the case of Brazil. Then, in the next chapter, I focus on the major works which seek to identify a relationship between economic growth and inequality. Chapter four gives information about the history of Brazilian development and inequality. And with the next chapter, I try to support my argument by examining the socioeconomic policies of Cardoso and Lula which is the most comprehensive part in the study. In the last part, I give the results of the study and draw my conclusions.

2. CONCEPTUAL AND THEORETICAL FRAMEWORK

The main purpose of this study is to examine the relationship between economic growth and inequality. To accomplish this, I decided to conduct a single case study because I want to investigate in detail the relationship between economic growth and inequality. I chose Brazil as a case for a number of reasons. Among Latin American countries, it “is the fourth largest area, the largest democracy and the largest Catholic country” (Vanden and Prevost, 2009: 369). In addition, Brazil has the biggest economy in Latin America making it a regional leader. In the world, the Brazilian economy is also one of the biggest economies. According to research by the Business and Economy Research Center in 2011, the Brazilian economy passed Britain and became the world’s sixth largest economy in the world (BBC Türkçe, 26th December 2011). At the same time, Brazil is expected to have one of the largest economies in the world by 2050 (Vanden and Prevost, 2009). Moreover, the Brazilian economy is one of the fastest growing economies. Brazil is one of the BRICS (Brazil, Russia, India, China and South Africa). Actually, today, Brazil has higher growth rate than many developed countries.

On the other hand, Brazil has one of the most unequal societies in the world. In Table 1, the list of fourteen countries by inequality in 1993 and in 2010 can be seen. From this table, it can be seen that at the beginning of the 1990s, after Central African Republic, Namibia, Botswana and Sierra Leone, Brazil had the fifth most unequal society in the world. Among Latin American countries, it had the highest inequality in the region. However, after two decades, by the 2010s, inequality began to decrease in Brazil. As a result, the position of Brazil in the list has changed so that

nowadays Haiti, Bolivia, Honduras, Colombia and Guatemala in Latin America have higher measures of inequality compared to Brazil. Furthermore, from the table 1, it can be seen that by 2010 South Africa, which has had as rapid economic growth as Brazil, has substantially higher inequality than Brazil; whereas in 1993 Brazil had higher inequality. On the other hand, although Brazilian inequality began to decline, it still remains huge. Now, Brazil takes a place in the tenth in terms of inequality. So, this combination of high economic growth and huge inequality of Brazil caught my attention for investigation.

Table 1: List of countries by inequality

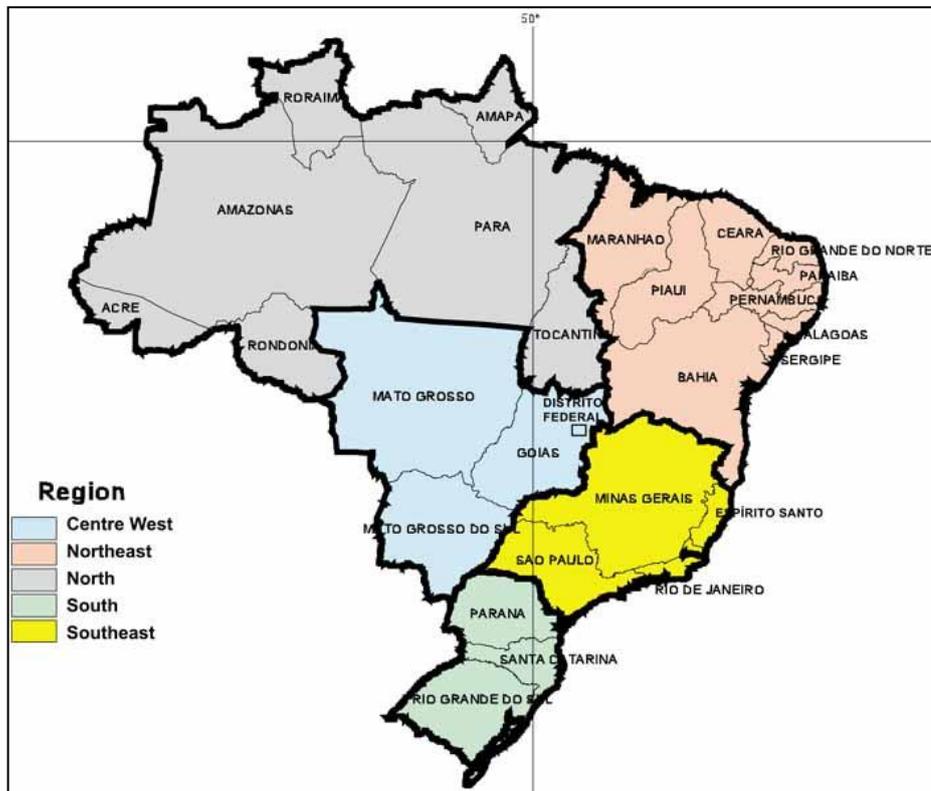
<i>List of countries by inequality</i>	1993	2010
Bolivia	0.54	0.57
Botswana	0.63	.....
Brazil	0.60	0.54
Central African Republic	0.61	0.56
Colombia	.....	0.56
Guatemala	.....	0.55
Haiti	.....	0.59
Hong Kong	.....	0.54
Honduras	0.54	0.57
Namibia	0.74	0.60
Paraguay	.....	0.54
Sierra Leone	0.63	.....
South Africa	0.59	0.63
Thailand	.....	0.54

Source: World Development Indicators

Geographically, Brazil is divided into five main regions as Figure 1 shows, below. These regions are the North region, the Northeast region, the Centre-West region, the Southeast region and the South. The North mainly includes Amazonian rain forests. Surely, rain forests are one of the famous regions in Brazil. Manaus and

Belem are two main cities of the north region. The northeast region is the poorest region in Brazil (Vanden and Prevost, 2009). Mainly the descendants of former African slaves lived there since the colonization years. During the colonial period, until 1822, with the sugar economy, this region was growing. They produced sugar and exported to European countries, but this economy collapsed in the nineteenth century with the creation of coffee production in the southeast region. As a result, everything turned bad for the northeast region (The Economist, 6th May 2004). It can be said that living conditions in the northeast region did not change so much until the end of the 1990s. Fortaleza, Recife and Salvador are major cities of this region. The southeast region of Brazil is the most powerful region in terms of the economy. In addition, it has the greatest population among the regions. Furthermore, the southeast region is one of the industrialized regions in Brazil with the south region. Sao Paulo and Rio de Janeiro are the main cities of this region. It is important to say that "Sao Paulo is the centre of the country's banking, agribusiness, and service industries" (Vanden and Prevost, 2009: 381). It is the industrial centre as well. The centre-west region is a newly established region which includes the capital city – Brasilia. And lastly, the south region is "the most European part of Brazil, with much of the population tracing ancestry back to Germany and Italy" (Vanden and Prevost, 2009: 381). Immigrants from Europe, who came to Brazil in the nineteenth century, have mainly lived there.

Figure 1: Map of Brazil



Source: Food and Agriculture Organization of the United Nations (FAO) – Corporate Document Repository

The thesis focuses on the last 20 years of Brazilian development from 1992 to 2012 and tried to find a relationship between economic growth and inequality. It is true to say that the last 20 years were important for Brazil because there was huge economic growth and more importantly, inequality began to decrease. So this period is important to understand the relationship between economic growth and inequality. Specifically, during this period, new socioeconomic policies were initiated by two Brazilian presidents – Cardoso and Lula. Actually, it was the first time in Brazilian history that specific social policies were implemented to fight against inequality. In addition, it was the first time, therefore, that such policies could be used effectively (The Economist, 27th March 1999b).

This investigation is based on an examination of the historical, political and economic data of Brazil. The data was obtained through the analysis of written records about the relationship between economic growth and inequality both in general sphere and in Brazil. At the same time, I used some statistical data. This means that in addition to qualitative data, I also used quantitative data in my research. During my research, for data collection, I used databases of organizations, such as World Development Indicators, UNU-Wider and the Economist.

I intended to examine the relationship between economic growth and inequality by referring to Kuznets' theory. In other words, I took into account their relationship as in Kuznets' theory. Although there are many theories about the relationship between economic growth and inequality, I chose Kuznets' theory as a way to investigate this relationship. In chapter three, five main theories were mentioned to show literature about this issue. Except Kuznets' theory, other four theories took Kuznets' hypothesis as a base and built their theory on it. So I also decided to take Kuznets as a base for this topic. In addition, Kuznets created his theory by focusing on industrial countries – the US, England and Germany. In other words, he investigated countries which had a transition from agricultural sector to industrial sector. This transition can be also seen in the case of Brazil, so I thought that Kuznets' theory can be a good way to investigate the relationship between economic growth and inequality in Brazil.

Basically, Kuznets theory shows that although at the beginning economic growth leads to inequality, after reaching a certain welfare level, inequality starts to decline (Kuznets, 1955). At first, new process was not beneficial to poor people because they did not have same abilities as the rich. After a while, they increased

their abilities and they began to have same chance for job as the rich. At this point, more people began to benefit economic growth. So by using this theory, I was going to look at whether economic growth causes a decrease of inequality or not in Brazil. Yet, I hypothesize that economic growth is not the only determinant for the decrease in inequality.

In general, although Kuznets believes that with economic growth inequality starts to decrease, I claim that economic growth is not as crucial for decreasing inequality. Instead of economic growth, there are other determinants of changes in inequality. For instance, social welfare functions are important determinants of inequality (Atkinson, 1970). Atkinson is one of the scholars who argue that social policies are effective in the decrease of inequality, and therefore I tried to focus on the role of the state in decreasing inequality. I examined changes in Brazilian inequality between the beginning and end of this twenty year period from 1992 to 2012. In addition, I identified socioeconomic policy changes of Brazil and their effects. In this point, I tried to look at those people or regions, who/which benefit from those new policies. Basically, I tried to analyze how those policies have affected households. Furthermore, I tried to look at whether poor households are still poor (or not) after those policies. At the same time, I tried to examine whether the income of those people increased or decreased.

It can be said that economic growth and inequality are key concepts of my thesis. Indeed, it is important to identify these two concepts. Firstly, I would like to start with economic growth. It is essential to say that economic growth is certainly different from economic development. Joseph Schumpeter (1939) explains growth as “a process of gradual change, with all quantities, such as wealth, savings, and

population, increasing slowly and continuously; development is characterized as rapidly propelled by innovations” (cited in Franko, 1999: 11). On the other side, Robert Lucas (1988) defines growth as “the increase of income proportional to the increase of population, and development as the process whereby income increases more rapidly than population” (cited in Franko, 1999: 11). This means that development presupposes technical change, whereas growth does not. Amartya Sen (2001) explains development as an improvement of citizens’ abilities to live; in other words, for development, the expansion of income is unnecessary. According to him, with growth, we may not see progress in the quality of life of many people. Yet, we can see improvement in the quality of life with moderate growth. In general, growth is related with economic growth, development is not just income. It includes improvements in health, education and standard of living. Therefore, development, in its comprehensive meaning, is essential to provide better living standards to people, but economic growth may not.

In my thesis, I take economic growth to refer to a rise in the value of an economy. For understanding or measuring economic growth, we usually look at changes in the Gross Domestic Product (GDP) and GDP per capita. Basically, GDP is the value of the final goods and services produced in an economy over a period of time. And GDP per capita can be used as a measure of living standards of a country (Canuto, 2012). In other words, it shows mean income of people by taking GDP as a source. By this way, we can understand the effects of GDP growth on individuals. Basic GDP and GDP per capita data of Brazil were taken from the World Development Indicators of the World Bank.

The other main concept of my thesis is inequality. In general, “the concept of inequality focuses attention on all the various forms of social inequity, injustice, and discrimination that exist in the region” (Harris and Nef, 2008: 3). It is necessary to say that with inequality, I mainly imply income inequality. Briefly, income is a combination of “wages, salaries, interest on a savings account, dividends from shares of stock, rent, and profits” (defined by inequality.org) and therefore income inequality can be defined as an unequal distribution of income.

The most important factor affecting income inequality is low levels of education (Sheahan, 1987). It is true to say that inequality and education always go together. For instance, rich people make sure that their children can get better education. As a result of this good education, they can earn higher incomes. However, lower income people are not in this situation; they cannot provide good education to their children, so an inevitable ending for them is to get lower income (Sheahan, 1987). Basically this means that it is necessary to look at education data to be able to illustrate inequality. For education, I used data from *World Development Indicators*. I looked at school enrollment and the literacy rate of 15 year-olds or older people. In addition, I focused on what government spending is on education. The other important factor for inequality is poverty. It is essential to state that poverty and inequality is not the same thing. Poverty refers to income level. Nowadays, it is defined with earning \$1.25 a day by the World Bank. However, inequality refers to the gap between the rich and poor in a country. For instance, India has an equal society, but the majority of people are very poor. On the other hand, the US is a rich society compared to many countries; in contrast, they are unequal (Handelman, 2011). The important thing is that in developing countries, high inequality causes poverty, so for those countries

without solving the poverty problem it is not possible to decrease huge inequality or vice versa. For this reason, I focused on poverty in Brazil through the years to illustrate inequality. For analyzing poverty of Brazil, again I used the World Development Indicators.

Deininger and Squire (1997) suggest that there are three criteria to be able to investigate income inequality. The first one is that the data should depend on rationally representative surveys. General assumptions and synthetic estimates do not give accurate results. Secondly, data should include the whole population. This means that it should cover both rural and urban populations. Thirdly, data should cover all types of income. It should also include nonwage income and income from household production. I tried to pay attention all these criteria when I chose data for my thesis.

For examining income inequality, I decided to focus on the distribution of several income variables. Deininger and Squire (1996) recommend using different possible sources to improve reliability, so I tried to use different sources as much as I could. I took data from UNU-Wider, Inequality.org, and the World Development Indicators. Generally, scholars (Anand and Kanbur 1993; Franko 1999) argue that the GINI coefficient which is known as the GINI index is the best way to measure income inequality, so I focused on it. In addition, I investigated the GINI coefficient both including and excluding zero income¹. Franko (1999: 325) states that “the GINI coefficient measures the difference between a hypothetical population with all income divided equally and the actual distribution in an economy”. Basically, the GINI coefficient is:

¹ Zero income refers to lack of income (Gasparini, Cruces and Tornarolli, 2009).

a measure of the extent to which actual income distribution in a country differs from a hypothetical uniform distribution, goes from 0, for absolute equality, with each individual or household receiving an identical share of income, to 1, which indicates that one person or household receives all the income (Deininger and Squire, 1997: 38).

To be more precise, I can say that the GINI coefficient is changing between 0 and 1. Larger values means higher levels of inequality. The GINI coefficient can be found in official sources that are based on primary data. The documentation in secondary data can be weak (Deininger and Squire, 1996). So this can be seen as a positive side of using the GINI coefficient.

However, I did not only use the GINI coefficient. I also focused on income share of individuals and households by deciles. In this way, I can see income changes of the richest and poorest through the years. At the same time, we can see changes of inequality between them. Actually, I used both individuals and households because if there are certain differences between rich and poor households, then there is an important difference between an individual and household. For instance:

If the number of individuals per household is much higher in poor than in rich families, use of household-based data would result in a lower measure of inequality than measurement on a per capita basis. If however, the difference is primarily caused by the number of children, simply dividing total household income by the number of people may in turn result in an overestimation of inequality (Deininger and Squire, 1996: 580).

At the same time, according to Ferreira, Leite and Litchfield (2007), the educational attainment of the household head is the most effective factor in overall inequality. So for these reasons, I used both individuals and households as a measurement.

As Deininger and Squire (1997) state, data should include the whole population. For this reason, it is necessary to focus on both urban and rural places to investigate inequality well. So, I illustrated per capita income by deciles in urban and rural places. In this point, I used UNU-Wider as a source. Moreover, I illustrated economic classes in Brazil through the years to be able to investigate income inequality. It is true to say that the creation of a bigger middle class means reduction of inequality (Wiltse, 2010). In fact, I was going to look at economic classes whether the middle class grew or not. In this point, I used data from *Fundação Getulio Vargas* (FGV)² as a source. Furthermore, I used the Human Development Index (HDI)³ to show the social development of Brazil by using the UNDP Human Development Report.

It is true to say that it is difficult to study inequality because there are problems collecting or generating data on inequality. As already mentioned, inequality data can change by taking individuals as a measure compared to households. Furthermore, inequality is rarely calculated for each year. So in some points, it presents difficulties because you cannot find inequality measures for all years. Moreover, inequality can be calculated differently by different economists. In fact, this gives different results. For instance, UNU-Wider gives the GINI index of Brazil or income share of individuals and households different than Inequality.org. For this reason, I tried to use one database for each measurement.

² Fundação Getulio Vargas (Getulio Vargas Foundation) is a Brazilian higher education institution which was established in December 1944.

³ Human Development Index is calculated by the United Nations Development Program by analyzing education level, life expectancy and standard of living.

3. ECONOMIC GROWTH AND INEQUALITY: IS THERE A DIRECT RELATIONSHIP?

The relationship between inequality and economic growth is an important topic and numerous scholars have studied this issue. This topic was studied early on by Simon Kuznets in 1955 in which he developed an inverted-U curve describing the relationship between economic growth and inequality after investigating industrial societies. This description was challenged by some scholars (Alderson and Neilsen 2002; List and Gallet 1999) who suggested that inequality again started to increase in the 1970s, so they came up with the U-shape curve. Other non-industrial society examples seemed to offer two contrasting cases, namely Latin America and East Asia in the post World War II period. In Latin America there seemed to have been really high inequality and low economic growth; whereas, East Asia seemed to have low inequality and high economic growth. From this point, many scholars like Persson and Tabellini (1994) and Alesina and Rodrik (1994) argued that there was a negative relationship between economic growth and inequality. On the other hand, there were several empirical studies led by Partridge (1997), Li and Zou (1998) and Forbes (2000) which showed a positive relationship. It is also necessary to note that there were also many other scholars (Anand and Kanbur 1993; Deininger and Squire 1996; 1997; 1998) who find a nonsystematic relationship between economic growth and inequality.

3.1 Kuznets' curve – inverted-U curve

Simon Kuznets worked extensively on the relationship between economic growth and inequality and as a result of this research created one of the most effective hypotheses about this topic. Actually, Kuznets came up with the Kuznets' curve which is also known as the inverted-U curve/theory. The graph of Kuznets' curve can be seen in Appendix-A. Indeed, Alanso labels this curve as a “bellshaped” curve (Azzoni, 2001). Kuznets came up with the inverted-U curve in 1955 and this curve was developed further by Robinson (1976, cited in Barro, 2000). Robinson mainly focused on the movements of persons from agriculture to industry. Kuznets investigated economic, political and social factors to be able to create this theory. However, he primarily focused on the shift of population from traditional to modern activities (Anand and Kanbur, 1993).

Kuznets' original hypothesis was based on historical data for the first half of the nineteenth century from only three developed countries which are the US, England and Germany (Deininger and Squire, 1998). In short, Kuznets' theory states that economic growth in the early years of development leads to inequality. In contrast, after reaching a certain welfare level, inequality starts to decline. In Kuznets' theory there is the argument that

The poorest group's share of total income would decrease as economic growth takes off and would not be restored to initial levels for 60 years; as a result the poor's per capita incomes are lower by an average of 10 percent over two generations (Deininger and Squire, 1997: 38).

To be more precise, Kuznets (1955) says that in the cases of the US, England and Germany, we can see long term changes in their histories. More obviously, he found

that the relative distribution of income over the years became more equal in those countries. For instance:

In the United States, in the distribution of income among families (excluding single individuals), the shares of the two lowest quintiles rise from 13.5 percent in 1929 to 18 percent in the years after the Second World War; whereas the share of the top quintile declines from 55 to 44 percent, and that of the top 5 percent from 31 to 20 percent (Seligson and Passe-Smith, 2008: 136).

Kuznets (1955) saw economic growth as a sum of stages and he claims that decreasing inequality needs a long term process. In the early stages of economic growth, with the transition from pre-industrial to the industrial sector, inequality increases. After a while, it becomes stabilized and then, in the later stages, it starts to decline which Kuznets said was certainly clear in the advanced countries such as the US, England and Germany. To be clear, the agricultural sector can be the first stage. In this stage, society has low inequality and low income. Then, we can see a shift from the agricultural sector to the industrial sector, but there is more inequality (Aghion and Williamson, 1998). According to Kuznets (1955), after shifting from the agricultural sector to the industrial sector, a shift from the countryside to the city could be also seen. This affected lower income groups negatively and as a result, inequality became much higher. Moreover, after a while, a shift to high-wage sector could be seen. In this stage, inequality is really high. However, at later stages, when the country had reached a certain welfare level, inequality started to decrease (Aghion and Williamson, 1998). Although the country continued to grow, inequality started to decrease, because at this point, more people began to benefit from that growth (Franko, 1999).

Many scholars (Deininger and Squire 1996; Franko 1999) criticized Kuznets because it was not clear how we can understand what was the particular welfare level at which inequality starts to decline. However, Kuznets explained this level in many ways. Firstly, he says that with the shift from agricultural to industrial production, we can see the transition from the countryside to the city. The newly immigrant population in the cities did not have the same opportunities as natives who were born in the cities. Kuznets argues (1955) that natives have much more advantage in preparation for the economic struggle because they know city life. From this point of view, we can understand that these people had more chance to organize and adapt to the new process, so they could possibly have greater income shares. On the other hand, after a while, newly immigrant population also gets used to living in the city and they learned how life in the city is. Indeed, they have started to prepare themselves for the economic struggle. As a result, their income share started to increase. Furthermore, Kuznets claims (1955) that if the state was democratic, then it was much easier to decrease inequality because the urban lower income groups can exercise political power through voting, so they can lead the creation of a variety of protective and supporting legislation (Seligson and Passe-Smith, 2008). According to Kuznets (1955), these factors mentioned above lead to a decrease in inequality at the later stages of industrialization and urbanization.

Anand and Kanbur (1993) suggest that Kuznets used time-series data on England, Germany and the US when he formalized his theory. It can be said that some researchers (Ram 1989; Park and Brat 1995) have used Kuznets' thesis as a basis when they were looking at a single country over time (Keller, 2012). Clearly, some scholars (Capelli and Daniel 1995; Jha 2002) shared the same views with

Kuznets and approved of his inverted-U curve. Capelli and Daniel (1995, cited in Aghion and Williamson, 1998) argue that with industrialization, the economy started to grow gradually. At the same time, they claim that as a result of industrialization, immigration occurred which at the beginning increased inequality, but then with continuous growth, inequality began to decrease as Kuznets stated. So Capelli and Daniel, with these arguments, have certainly confirmed Kuznets' theory. Jha (2002, cited in Cornia, 2004) also has similar views. She argues that the potential of globalization causes economic growth in a country which also gives a benefit to all people. So this reduces inequality. This means that for Jha (2002, cited in Cornia, 2004) with economic growth, inequality decreases.

To be able to investigate the relationship between economic growth and inequality, Korzeniewicz and Moran (2005) argue that there are two dimensions, as Kuznets suggested. Firstly, it is essential to understand processes of economic growth, because such growth causes demographic transitions between existing and new areas of production. As a result, with these transitions, the composition of income distribution is affected. Secondly, the effect of institutions and common social forces on power reorganizations formalizes the distributional character of demographic transitions. Therefore, Korzeniewicz and Moran (2005) claim that Kuznets' theory should be taken as a basis. In general, it can be said that they neither totally disprove Kuznets' theory nor totally accept his ideas. Actually, they accept that economic growth has an important role on the decrease of inequality, but they also found that distribution of income is a significant indicator. If income is distributed equally, then inequality began to decrease.

Although some scholars have supported Kuznets' theory, there are many other scholars (Acemoğlu and Robinson 2002; Bowman 1997; Williamson 1991) who reject this theory. According to Acemoğlu and Robinson (2002), if we investigated the history of Western European countries we could see confirmation of the Kuznets' curve in the cases of England, France, Sweden and Germany. However, they found that more recent experiences do not support this theory. Alderson and Nielsen (2002) argue that this type of curve can be only seen in industrial societies. Similarly, Deininger and Squire (1998) argue that Kuznets' theory can be confirmed only by developed countries. More specifically, for instance Kuznets' theory is rejected by investigating East Asia. Williamson (1991, cited in Korzeniewicz and Moran, 2005) found that in East Asia, inequality did not increase as Kuznets said. Actually, there were many skilled workers and in addition, for industrialization, unskilled workers were also essential. As a result, in East Asia, urban-rural gaps were not so wide. Bowman (1997) also studied economic growth, inequality and Kuznets' theory. He tried to examine Kuznets' theory by focusing on 8 cases which were Brazil, Costa Rica, Greece, Japan, Malaysia, South Korea, Taiwan and Turkey. Except for Malaysia, the other 7 cases have disproved Kuznets' theory.

Williamson (1991) believes that at the beginning of the economic growth, inequality does not always increase. In other words, they argue that it is not necessary that with economic growth, inequality first increases and then decreases. Fields (1989, cited in Deininger and Squire, 1998) found that there are many cases that even if there is very low economic growth, inequality does not increase. In contrast, some other scholars, especially economists (Franko 1999), claim that growth begins with increasing equality. They explain this argument as follows. If

many people have money, when they spend it, more money occurs in the market. In other words, “improving income distribution could work to increase domestic demand for goods and services, providing a consumer-led expansion for growth” (Franko, 1999: 330).

Aghion, Caroli and Garcia-Penalosa (1999) focused on both developed and less-developed countries for understanding the effects of growth on inequality. They basically looked at trade liberalization as standard trade theory. Mainly, they focused on technical change to understand the relationship between growth and inequality. According to them, in the disembodied technical change, the skill premium was raised with the coming of the new General Purpose Technologies (GPT)⁴ because skilled labor was needed at the first stage. However, when most sectors made a transition to the new GPT and supply of skilled labor increases, then the skill premium began to decline. In a similar way, in the embodied technical change, Aghion, Caroli and Garcia-Penalosa (1999) found that the transferability of knowledge is increased with the arrival of a GPT because leading-edge knowledge is generalized. As a result of this, wage inequality rose. Indeed, with the increase of transferability of knowledge, all workers started to have some experience of this. As a conclusion, Aghion, Caroli and Garcia-Penalosa (1999) suggest that these two mechanisms create a kind of alternative to Kuznets’ curve during the transition to a new technological paradigm. From these viewpoints, we can see that many scholars have rejected Kuznets’ theory.

⁴ “A General Purpose Technologies (GPT) is a technological invention that affects the entire economic system” (Aghion, Caroli and Garcia-Penalosa, 1999: 1640).

3.2 U-shape curve

According to Kuznets' curve, at the beginning of growth, inequality first increases, peaks and then declines. However, this scenario changed because in the 1970s, inequality in the US started to increase. This type of increase on inequality was also seen in other industrial societies. Harrison and Bluestone (1988) defined this new scenario as a "great U-turn" (cited in Alderson and Nielsen, 2002). Many scholars (Alderson and Nielsen 2002; List and Gallet 1999) argue that U-shape relationship between economic growth and inequality is the continuation of Kuznets' curve. Alderson and Nielsen (2002) suggest that this may be seen at a late stage of industrial development. Braulke (1983: 135) states that many scholars found the U-shape curve as "a technical property of certain inequality measures". For the U-shape curve, inequality after decreasing starts to increase again. This, it was argued, was directly related with the changing role of women, deindustrialization and the role of labor market institutions (Anderson and Nielsen, 2002).

List and Gallet (1999: 208) claim that "a U-shape characterizes the relationship between income inequality and per capita income, with most developed countries lying on the positively sloped region of curve". Basically, there are some countries which have a real U-shaped curve about the relationship between economic growth and inequality (Keller 2012; Anand and Kanbur 1993; Deininger and Squire 1996, 1997). For instance, Aghion and Williamson (1998) found that until the end of the 1960s and beginning of the 1970s, Kuznets theory seemed to be accepted because Kuznets' arguments were supported by the US in those years. By contrast, after those years, situations changed and inequality significantly started to increase both

between and within groups of workers. Moreover, according to research by Daudelin and Samy (2011), the relationship between income per capita and inequality is an inverted-U until 1991; in contrast, it became a straight-U by the 2000s in industrial societies. On the other side, the U-shape curve has also been criticized. Bannerjee and Duflo (2000) state that there is not enough evidence to support U-shaped relationship between economic growth and inequality (cited in Dollar and Kraay, 2001).

3.3 Negative relationship between economic growth and inequality

There are also many scholars (Persson and Tabellini 1994; Alesina and Rodrik 1994) who argue that there is a negative relationship between economic growth and inequality. This basically means that when inequality increases, economic growth declines or when inequality decreases, growth increases. Chen (2003) studied economic growth and inequality relationship. In general, he states:

A positive long-term relationship between income inequality and economic growth will naturally emerge under this situation, as an increase in income inequality from a very equal level encourages skilled workers to work harder and entrepreneurs to invest more. On the other hand, when income is already very unequally distributed, a large redistribution tax is easily called for which discourages incentives to work and invest, and furthermore, when credit markets are imperfect, there will be only a small number of investors capable of engaging in investment projects of a minimum size (Chen, 2003: 206).

Chen (2003) argues that there will be a negative relationship between economic growth and inequality (Chen, 2003). Actually, we can see a certain difference between Kuznets and Chen. Chen (2003) fundamentally found that if a country

has high income inequality, then by reducing its income inequality economic growth can increase.

Like cross-sectional studies, political economy models (Alesina and Rodrik 1994; Persson and Tabellini 1994) also suggest that there is a negative relationship between economic growth and inequality (Banerjee and Duflo, 2000). According to this model, inequality leads to redistribution; as a result, this affects growth negatively. To be more precise, political economy models state that “if countries differ only in their ex-ante distributions of income, then the redistributions that occur through the political process tend to be only partly offsetting” (Barro, 2000: 6). In addition, this relationship can be different if countries have different experience for redistribution.

In this case, the countries that look more equal ex post tend to be those that have redistributed the most and, hence, caused the most distortions of economic decisions. In this case, ex post inequality tends to be positively related to growth and investment (Barro, 2000: 7).

According to political economy models, if transfers do not occur in equilibrium, negative relationship can occur between economic growth and inequality. Rich people can prevent redistribution policies with lobbying and buying of votes of legislators. However, these activities may cause corruption and tend to hamper economic performance (Barro, 2000). At this point, we can see a negative effect of inequality on growth.

According to liberal views, with monetary and fiscal stability and open markets, economic growth increases, in addition, incomes of the poor rise, too (Dollar and Kraay, 2001). Furthermore, according to these views, formal democratic institutions

and public spending on health and education are not effective in decreasing income inequality. Basically these mean that growth which comes with open trade and other macro policies benefits the poor and decrease inequality. Bill Clinton (2000, cited in Dollar and Kraay, 2001: 1) declared in a speech that “we have to reaffirm unambiguously that open markets are the best engine we know of to lift living standards and build shared prosperity”. Dobson and Ramlogan (2009) focused on standard trade theory. According to this theory, with openness to trade, the wage gap between skilled and unskilled workers starts to decrease in developing countries because the relative demand for unskilled workers rises. This again shows a negative relationship between economic growth and inequality.

3.4 Positive relationship between economic growth and inequality

Against researchers who claim that there is a negative relationship between economic growth and inequality, many scholars (Li and Zou 1998; Forbes 2000) believe that the relationship between economic growth and inequality is positive. For instance, according to Forbes (2000), there is a positive relationship between economic growth and inequality. Actually, he criticized other researchers who suggest a negative relationship between economic growth and inequality. He states that those researchers focus on exogenous factors such as aggregate wealth, political institutions or the level of development. There are also many scholars who share the same views as Forbes. For instance, Benabou (1996, cited in Forbes, 2000: 870) creates a theory which is based on heterogeneous individuals and stated that “if the degree of complementarity between individuals’ human capital is stronger in local than global interactions, then segregated and more unequal societies can

experience higher rates of growth". In addition, according to Galor and Tsiddon (1997, cited in Forbes, 2000), with the major technological inventions, inequality increases because highly skilled workers are in advance and at the same time, these inventions will create growth.

Furthermore, Li and Zou (1998) suggest that there is a positive relationship between economic growth and inequality. List and Gallet (1999) also found that the relationship between economic growth and inequality was positive. They analyzed 71 countries including high developed and lower developed countries between 1961 and 1992. As a result, they reached the conclusion that especially in advanced countries, a positive relationship between economic growth and inequality can be seen more clearly. On the other side, List and Gallet (1999) found that lower developed and middle developed countries supported Kuznets' inverted-U curve.

3.5 No systematic relationship between economic growth and inequality

Although many researchers use different strategies to test the relationship between economic growth and inequality, it is difficult to test this issue, because the process which Kuznets stated cannot operate in some countries or it operates differently. Anand and Kanbur (1993) suggest that it is difficult to make a generalization about economic growth and inequality relationship. From this point of view some researchers such as Anand and Kanbur (1993), Deininger and Squire (1996) and Ravallion (1995) argue that there was no systematic relationship between economic growth and inequality.

According to Franko (1999), it was difficult to resolve the relationship between economic growth and inequality. Actually, he thought that data which we all have are not enough to resolve this issue. In addition to this, because of volatile macroeconomic growth rates, it was hard to reach an estimation about the relationship between economic growth and inequality. So from this point, Franko (1999), against Kuznets, claims that it was difficult to make a generalization. According to him, each state has different institutional characteristics of economy and different data collection techniques. Additionally, he argues that magnitudes of growth rates and time are also important; that is why we cannot make a generalization. In this point, he gave an example from studies by the World Bank about economic growth and inequality. In research by the World Bank, eighty-eight countries, whose GDP per capita grew for a decade, were examined. As a result, in forty-five countries, inequality increased, whereas in forty-three countries, it decreased. Hence, Franko (1999) claims that states' magnitude of growth and time, in which stage they are in the process of growth are not certain. Indeed, he believes that it is not accurate to make a generalization about the relationship between economic growth and inequality.

Furthermore, Deininger and Squire (1996) state that it is not possible to create a link between economic growth and inequality. In other words, they claim that it was difficult to come to a general conclusion as Kuznets in the relationship between economic growth and inequality. Actually, the quality of data and different explanations of measurements create this difficulty. Moreover, according to research by Deininger and Squire (1997), overall inequality may be seen as stable; whereas, the reality can be different. Therefore, Bowman (1997) says that it is difficult to make

a generalization about economic growth and inequality, because each country has its own causes of inequality. At the same time, Dollar and Kraay (2001) argue that we cannot make a generalization that by decreasing inflation, opening international trade, developing financial markets or implementing new policies, in whole countries, growth increases and inequality decreases.

Acemoğlu and Robinson (2002) suggest that Kuznets focused on economic factors. With the transition from the agricultural sector to the industrial sector, a dual economy was created, so the pattern of growth and inequality was affected by this. On the other side, Aghion and Bolton (1997, cited in Acemoğlu and Robinson, 2002: 184) created a model and found that “accumulation by the rich eventually pushes down the interest rate sufficiently to allow the poor to invest and catch up”. Against those theories, Acemoğlu and Robinson (2002) claim that political factors and institutional transformation of the West have much more effect on inequality. Basically, they argue that inequality does not necessarily decrease with economic growth. As a consequence of political changes, it is possible to see a decrease in inequality. As, Acemoğlu and Robinson (2002: 184) state:

Our theory of the Kuznets curve is that capitalist industrialization tends to increase inequality, but this inequality contains the seeds of its own destruction, because it induces a change in the political regime toward a more redistributive system.

Clearly, they believed that increasing social tension and political instability have caused an increase in inequality which is clearly an important argument.

Moreover, Korzeniewicz and Moran (2005) also claim that inequality does not only decrease with economic growth. There are also many other reasons such as

extensive land reform in Korea and Taiwan. Government policies can also be effective in decreasing of inequality. For instance, “the government in Indonesia used rice and fertilizer price policies to raise rural incomes, and Malaysia introduced explicit wealth-sharing programs to improve the lot of ethnic Malays relative to the better-off ethnic Chinese” (Korzeniewicz and Moran, 2005: 288). Dobson and Ramlogan (2009) also share similar views with Korzeniewicz and Moran and say that governments, by implementing some new policies can be also effective in the decrease of inequality.

3.6 The case of Brazil

Kuznets actually did not study Brazil so did not write anything about Brazil. However other scholars (Soares, Osoria and Zepeda 2009; Ferreira, Leite and Litchfield 2007) have tried to examine Brazil by considering Kuznets’ theory from various aspects. Schreiber (2001) basically argues that in Brazil, economic fundamentals are much more important in the decrease of inequality. In other words, according to him, following economic growth, decreases in inequality resulted. Certainly, he confirms Kuznets.

According to Azzoni (2001), when Brazilian national data are evaluated, it can be seen that there is no evidence for the acceptance of the Kuznets’ theory for Brazil. Brazil started to solve its inequality problem through using other means. Clements (1997) believes that inequality in Brazil is rooted in structural causes, so to be able to decrease inequality, education attainment and land ownership should be taken into account. He claims that economic growth does not have an effect on inequality.

Against scholars who argue that inequality in Brazil started to decline with economic growth, Ferreira, Leite and Litchfield (2007) claim that it started to decrease with structural and policy changes. Basically, they state that the main reasons for declining inequality in Brazil are a significant rural-urban convergence, a decline in racial inequality and increases in social assistance transfers that targeted the poor. Ferreira, Leite and Litchfield (2007) especially focus on social assistance transfers which included programs such as *Bolsa Familia*. They found that inequality levels in Brazil started to decline dramatically with these programs.

At this point, it is also necessary to look at the arguments of Bastagli, Coady and Gupta (2012). Actually, they argue that social assistance programs had made huge investments in education. As a result of this, the gap between highly educated and less educated started to decline; in addition, income inequality started to decrease. Furthermore, according to the research by Soares, Osoria and Zepeda (2009), we can see that social assistance programs in Brazil was one of the most important determinant of the decrease in inequality. In addition, they say that Brazil chooses some policies such as decentralization, but these policies do not become successful in the decline of inequality.

Although there are many theories about the relationship between economic growth and inequality, I chose Kuznets' theory as a way to investigate this relationship for several of reasons, as mentioned. However, in my opinion, Kuznets' hypothesis is not enough to explain this relationship. In the 1970s, Brazil had high economic growth as in the 1990s, but inequality did not decrease. However, since the end of the 1990s, Brazilian inequality began to decrease. In this point, it is essential to know reasons of inequality which are explained in the fourth chapter. In

the last two decades, Brazilian government mainly focused on those reasons of problem and provided social assistance programs to be able to decrease inequality.

As the literature suggest, social assistance programs have been much more effective in the decrease of inequality in Brazil. In the last 20 years, especially both with Cardoso and Lula, Brazil changed its socioeconomic policies and provided social assistance programs. So it is also essential to investigate whether socioeconomic policy changes have a certain effect on the decrease of inequality or not. In the following examination I shall assess whether inequality in Brazil starts to decline with economic growth or whether socioeconomic policies have had a greater effect on this decrease.

4. HISTORY OF BRAZILIAN DEVELOPMENT AND INEQUALITY

Although Brazil is expected to be a rich state in the future, for centuries it has been characterized by huge personal, social and regional inequalities. Early patterns of development in Brazil affected its current conditions (Franko, 1999). It is not expected that one state can develop without learning its past economic and social history (Frank, 1966). Indeed, historical experience is certainly important for states to be able to improve their situations. The most important reason of inequality in Brazil was forced transportation of African slaves during the colonial period. With enslaved Africans, the structure of society was changed. At the same time, creation of coffee production caused sugar production which impoverished the northeastern region of Brazil to come to an end. As a result, certain urban-rural divide occurred. In addition, from 1964 to 1985, during 21 years, Brazil was under military rule. Political economic theory saw military rule as a reason of inequality. They argue that democratic-ruled states have more chance to provide equality between individuals than dictatorship. This means that military rule can be also seen as a reason of inequality in Brazil. High inflation is also one of the reasons of inequality. So it is necessary to focus on these reasons to be able to solve inequality in Brazil.

4.1 Colonial period in Brazil from 1500 to 1822

During the colonial period, Latin America was attractive for colonization due to its natural resources. Europe saw Latin America as an opportunity for wealth. European contact with Brazil began in 1500 by Pedro Alvares Cabral at Coroa Vermelha (Vanden and Prevost, 2009). Portuguese settled in Brazil in 1532. Burns

(1993: 1) claims that “the Portuguese who discovered, explored and settled Brazil saw it as a terrestrial paradise”. Brazil took attention not only of Portuguese but also of French, Dutch and English. In fact, entities of Brazil such as Brazilwood and sugar were useful for Europeans, so European interest on Brazil increased the importance of Brazil.

During the colonial period, political power in Brazil was dominated by agricultural elites who also controlled policies. Actually, the Portuguese created colonies to use Brazilwood for textile dyes. Conditions in Brazil were useful for sugarcane cultivation, so the Portuguese colonizers tried to create a sugar industry. During the colonial period, the Brazilian economy grew through exports (Franko, 1999). Of course, all this progress stimulated further Portuguese interests in Brazil between the late 1600s and during the mid 1700s. However, when the Portuguese went to Brazil, they did not find organized indigenous people. This basically means that labor was scarce and so the labor problem was solved through forced transport of enslaved Africans. Indeed, the Portuguese used enslaved Africans as the principal form of labor power for the emerging sugar industry. From this point, inequality:

...begins with encounters between Portuguese adventurers and the trusting folk who peopled Brazil before their arrival, becomes more fraught with the arrival of African slaves, sparks brave but doomed rebellions and is still being played out through today’s crime, corruption and poverty (The Economist, 6th May 2004: 97).

With the creation of the sugar industry, the *fazenda* system was established. This system created an unequal socioeconomic situation in Brazil. So what was the *fazenda* system? In general, the *fazenda* refers to plantations based on slave labour. Under *fazenda* system, the plantation owners called *fazendeiros* ruled their lands. In addition, their workers both slaves and freemen were also controlled by *fazendeiros*

(The Economist, 6th May 2004). Mainly, fazenda system was established in the northeastern region because in this region, sugar was produced. However, when coffee started to be produced in the southeastern region and it took the place of sugar, then fazenda system disappeared in this region. Fazendeiros, in other words landowners, earned so much. It is true to say that they were rich, but they did not share this with their workers. Of course, this increased inequality between them. From this point, it can be understood that the root of Brazilian huge inequality came with this issue. Moreover, this process also increased poverty level in Brazil.

Agricultural elites had both political and economic power. They were rich and wealthy. On the other hand, the same cannot be said for the rest of society. In fact, there was a huge lower class in Brazil which came into existence with the transportation and enslavement of Africans. It is true to say that the large part of the population consisted of manual slave labor. In contrast, only a small part of the population – European origin elite – controlled capital and political power. And these people used slaves to increase their profits. This means that only a small part of the population got benefits. As a result of all these, large parts of the population became poor and the internal market became weak. This is only one of the reasons that Brazil has high inequality today.

“In 1808, as a result of Napoleon’s invasion and conquest of Iberia, the Portuguese royal family fled from Lisbon and established the new capital of their empire in Rio de Janeiro” (Vanden and Prevost, 2009: 370). It can be said that this was the first time in Brazil that national politics was centralized. From this viewpoint, a sense of nationhood started to develop in Brazil. In 1815, Napoleon was finally defeated and the Portuguese emperor left for Portugal. Then, Brazil declared its

independence in 1822. Brazilian independence was basically declared by Portuguese crown prince Dom Pedro I and he established himself as the emperor of Brazil (Vanden and Prevost, 2009).

4.2 Brazilian Empire between 1822 and 1889

Industrialization had an important role in Brazilian history in the nineteenth century. With the industrialization in Europe, instead of sugar, Brazil focused more on coffee production (Franko, 1999). Although there were similar socioeconomic systems in all Latin American countries, some of them can be seen as winners. Brazil is one of them. Coffee gave advantage to Brazil in the international export market, like copper and silver in Chile and sugar in Cuba (Franko, 1999). With industrialization in Europe and the US and with the opening of the British agricultural market, international demand for those products increased. The British became a much more apparent power in Brazil at the beginning of the independence years. Actually, they made a special treaty which gave the British the right to dominate Brazilian trade and economy and the British were the principal beneficiaries of Brazilian exports (Vanden and Prevost, 2009).

As was mentioned, instead of sugar, Brazil started to produce coffee in the southeastern region, whereas sugar production was in the northeastern region of Brazil. At this point, it is essential to know what the situation in the Northeastern region was, because today the northeastern region is the poorest region in Brazil. With the expansion of the capitalist world economy, by using colonization, the

Northeast, the North, the Minas Gerais interior⁵ and the Center-South of Brazil were brought into an export economy center (Frank, 1966). However, these were not self-generating or self-perpetuating. As a result, when interests of foreign powers diminished on these regions, these regions became unimportant. In contrast, only the South of Brazil continued its significance. When sugar lost its importance for foreign powers, its production disappeared in Brazil. And foreign capitalists turned to the Southern region of Brazil for coffee production (Frank, 1966). Indeed, with the end of sugar production, the northeastern region was affected badly because everything stopped in the region. In addition, foreign capitalists did not provide any alternative for them. So from this viewpoint, we can understand the reason why the northeastern region is the poorest region in Brazil.

It is true to say that the political and economic power of the elites continued after the independence. Although capital was high, only certain section of the population had it. Government focused on external capital and saw it as a source of growth. However, government was not committed to improve the local human capital of the peasants (Coatsworth, 1993, cited in Franko, 1999). Slavery was common in Brazil and their position was also bad. The British put pressure on Brazil to remove slavery. As a result, in 1871, “the Law of the Free Womb made anyone born after that date a freeman” (Vanden and Prevost, 2009: 371). However, equality in Brazil was not accomplished despite abolishing slavery. Perhaps, this arose because Brazil is one of the last countries in the world which abolished slavery.

During the beginning of the independence years, the political elite continued to use the same economic system in Brazil as in the colonial period. This meant that an

⁵ The Minas Gerais interior is an interior of mine expert region.

export based economy was used. As stated, Brazil produced mainly coffee and exported it to abroad since there was little domestic demand. It was produced to sell abroad; moreover, Brazil also exported cotton and minerals. With the end of the nineteenth century, Latin American countries got advantage from agricultural export boom. Of course, Brazil also benefited from this boom. However, not all Brazilians benefited equally. The profit or income of exports only went to agricultural elites who formed a small part of the population; whereas, exploited slaves who formed the main source of the production did not get benefits (Cardoso and Faletto, 1979). So this increased inequality in Brazil. This experience shows that economic growth in Brazil at the end of the nineteenth century did not cause the decrease of inequality. Instead of decrease, it caused an increase. This means that economic growth is not enough to decrease inequality.

On the other hand, this economic growth was not long lived because demand for exports was not determined domestically. Cardoso and Faletto (1979: 35) state that:

After independence, the problem of national organization in Latin America consisted in keeping local control of an export-oriented production system while creating a system of internal political alliance that would permit the group that maintained relations with the outside (the world market and the national states of the central countries) a minimum of internal power to preserve stability and represent the economic domination of the export-oriented production sector.

To be more precise, Brazil focused on single commodity export. Basically, Brazil had to sell its product, otherwise its economy entered a recession period. However, this type of economy always creates dependency which affects the economy badly (Franko, 1999). If the price of that export product decreases, then revenues also

decline. As Andre Gunder Frank and other dependency theorists claim, Brazil had a dependency relationship with other states because of this type of economic system (Vanden and Prevost, 2009). Especially with the opening of trade, Brazil was on the ropes. The Brazilian government could not protect Brazil from external shocks in the global economy. Actually, dependency relationship caused this result and the economy of Brazil was affected negatively.

4.3 Republic period in Brazil from 1889 to 1964

Brazil was the only country in Latin America ruled by a monarch for a long time. In the end, in 1889, the monarchy collapsed in Brazil with a coup and the first republic was established by the military (Vanden and Prevost, 2009). The coup leader – Manuel Deodoro da Fonseca – became the first president of Brazil. With this new period, Brazil on the one hand tried to expand coffee production and on the other hand tried to create an industrial base. Land in Brazil was not suitable for diverse agriculture, so the manufacturing sector was the place for profits. Federal funds started to be used for infrastructure (Vanden and Prevost, 2009). As a result, the Brazilian economy began to grow, but this growth was not long lived. With the 1929 Great Depression, everything changed in Brazil. Income from coffee exports declined. In addition, confidence in the republic also decreased.

At this point, defeated presidential candidate Getulio Vargas overthrew the first republic and declared the second republic. He dominated Brazilian politics for the entire period between 1930 and 1954. In 1937, he declared the New State with the support of the military. He basically created a new constitution to increase his

authority and centralize fiscal policy. By the 1930s, economists in Brazil started to think that for further development, the state needed diversification and industrialization. From this point on, with Vargas “Brazil began implementing a strategy of import substitution with its allied policy of trade barriers, including high tariffs, to protect the new domestic industries” (Vanden and Prevost, 2009: 379). He also tried to increase investments by using industrialization programs. Furthermore, Vargas made many educational reforms and prepared a social security law. However, he did not provide any policy or protection for poor Brazilians in rural places. In addition, with industrialization, many people migrated from rural places to urban places, but this created a huge unemployment problem. So Vargas became much more nationalist to be able to get support from Brazilians. By contrast, many scandals occurred within the Vargas’ administration (Vanden and Prevost, 2009) and as a result he ultimately killed himself.

After Vargas, Juscelino Kubitschek came to power. He had a slogan ‘fifty years progress in five’ (Vanden and Prevost, 2009). He made many economic programs with Celso Furtado who was an economist working at the ECLA (the Economic Commission for Latin America). In general, until the 1950s, there was a debate in Brazil whether the economy should continue to be based on agriculture or there should be industrialization. Although Vargas started to use industrialization policies and tried to use an import substitution strategy (ISI), industrialization process mainly began with Kubitschek (Schwartzman, 2000). Especially with targets program (*Plano de Metas* in Portuguese), Kubitschek gave a start to industrialization and modernization. Today, Brazil has the largest industrial economy among Latin American countries. With ISI programs, a car industry began in Brazil. Furthermore,

this program became an important reason to prepare new programs for energy production and industrial development. During the period of Kubitschek, employment increased, but inflation and corruption increased too. In general, there was a growth in the country. On the other side, creation of industrial economy did not bring wealth to all regions. The Northeastern region became more underdeveloped. In addition, during the 1950s, a disequilibrium problem began in the balance of payments. At the same time, sectoral imbalance became much clearer (Schwartzman, 2000). It can be said that although there was an economic growth, inequality in Brazil became higher in this period. In other words, economic growth could not decrease inequality in Brazil.

In 1961, Janio da Silva Quadros became president in Brazil. He wanted to clear the country of corruption. He made an important attempt to stabilize the economy. Yet, he did not become successful. As a result, after 7 months in office, Quadros resigned. Joao Goulart took Quadros' place. He immediately visited China and said that he was close to communism. For this speech, the US criticized him and they tried to provoke Brazilians to unify against Goulart. During his period, there was also recession and high inflation. At the same time, Goulart failed in the punishment of a military mutiny. As a consequence, in 1964, a semi-military coup occurred (Vanden and Prevost, 2009). Actually, this military-civilian coup continued about 21 years.

4.4 Twenty one years of military rule between 1964 and 1985

At the beginning of the military rule, a new economic team was created, so policies were specified. It can be said that ISI was supported and expanded by the military rule. In general, the federal government had the power to control most part of the economy. Basically, military rule tried to increase credit especially in agriculture. At the same time, they tried to promote exports. Moreover, agribusinesses started to get negative interest loans for expansion and new products. In this way, they tried to decrease production costs. As a result, they aimed to increase Brazilian exports. Actually, all these policies were made to increase economic growth in Brazil. Table 2 shows the GDP growth rate of Brazil from 1964 to 1979. By looking at this table, it can be said that at the beginning of the military rule from 1964 to 1967, economic growth was low.

Table 2: GDP growth (annual %), 1964-1979

YEAR	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
GDP growth rate	3,5	3,1	4,2	4,9	11,4	9,7	8,8	11,3	12,0	14	9,0	5,2	9.8	4.6	3.2	6.8

Source: World Development Indicators

A few years later from the beginning of the military rule, new policies which were made by military rule were adopted and the ISI model mainly became popular in Brazil especially by the end of the 1960s and beginning of the 1970s (Schwartzman, 2000). As a result, this model created a huge economic growth between 1968 and 1973. However, this fast economic growth did not take long. With the oil crises in the 1970s, problems began in the Brazilian economy. In 1973, the first oil crisis occurred. With the oil crisis, economies in the world were affected badly

and economic activities decreased. It can be said that the Brazilian economy was also affected by the oil crisis. From Table 2, it can be understood that the economic growth rate began to decrease. Although there was not a low economic growth rate, after 1973, the growth rate was lower compared to previous years and it became volatile. In this point, it is important to look at how Brazilians were affected by this lower economic growth. Table 3 shows GDP per capita growth from 1973 to 1979. After the 1973 oil crisis, lower GDP growth was also seen in growth of per capita.

Table 3: GDP per capita growth (annual %), 1973-1979

Year	1973	1974	1975	1976	1977	1978	1979
GDP per capita growth rate	11.3	6.5	2.8	7.2	2.2	0.8	4.3

Source: World Development Indicators

Although the Brazilian government tried to stabilize the economy, they could not do anything. Because immediately after the first oil crisis, in 1979, the second oil crisis occurred as a result of the Iranian Revolution and oil prices increased dramatically. Again economies in the world were affected negatively. The Brazilian government got a loan from the IMF and the World Bank to be able to recover from this situation. However, before ending the effects of the second oil crisis, the debt crisis began in Mexico in 1982 which affected all Latin American countries. This crisis was certainly a financial crisis. It began in the beginning of the 1980s and showed the failure of ISI. It is true to say that the debt crisis took its source from loans which were taken from the IMF and the World Bank. As mentioned above, Brazil took loans to be able to stabilize its economy. By contrast, these loans turned to a huge foreign debt for Brazil because Brazil was unable to repay those loans with its low earnings (Topal, 2007). Certainly, critical recession period began in Brazil. In those years,

foreign investment stopped. At the same time, there was high inflation and a stagnant economy (Vanden and Prevost, 2009). Table 4 shows the inflation rate in Brazil during the 1980s. It is right to say that the inflation rate increased dramatically in this period. Briefly, it increased from 101.72% to 2,947.73% between 1981 and 1990.

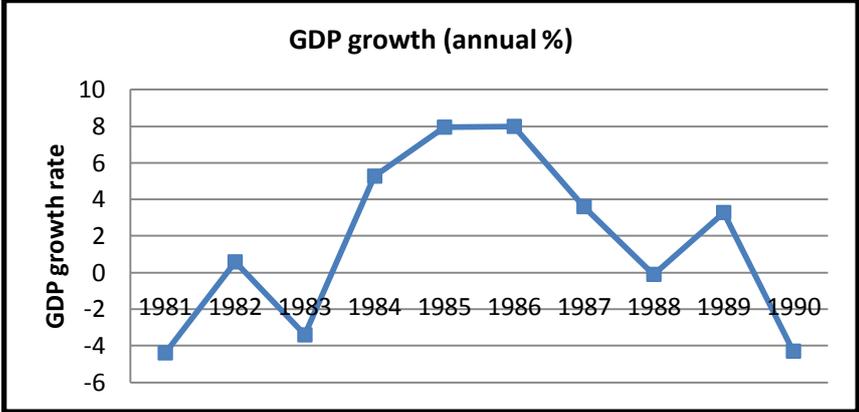
Table 4: Inflation rate (annual %), 1981-1990

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Inflation rate	101.72	100.54	135.03	192.12	225.99	147.14	228.34	629.11	1,430.72	2,947.73

Source: World Development Indicators

Figure 2 shows the growth rate of Brazil between 1981 and 1990. It can be seen from the figure that economic growth fluctuated in that decade. At the beginning of the 1980s, there was negative economic growth. Although Brazil stabilized its economy in the mid-1980s, at the end of the 1980s, its growth again turned negative.

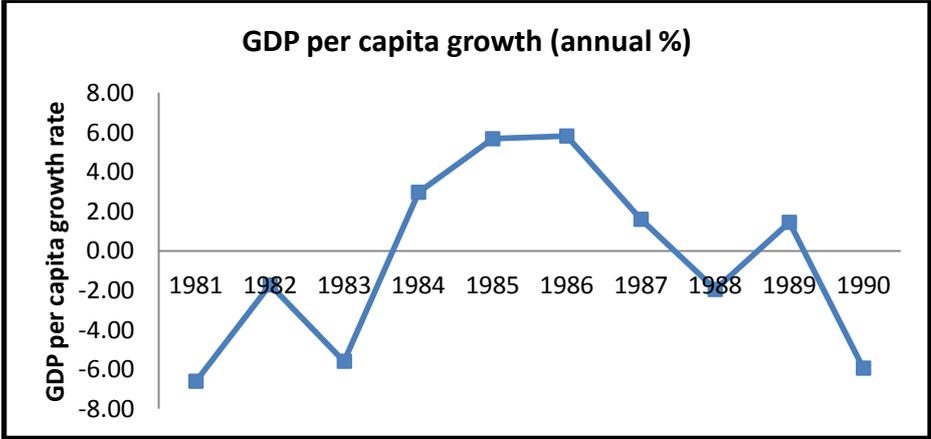
Figure 2: GDP growth (annual %), 1981-1990



Source: World Development Indicators

The same thing can be said for per capita growth. Figure 3 indicates GDP per capita growth in Brazil from 1980 to 1990. In a decade just like the growth rate, per capita growth rate also fluctuated. Again except the mid-1980s, there was a negative per capita growth.

Figure 3: GDP per capita growth (annual %), 1981-1990



Source: World Development Indicators

By the end of the 1960s and beginning of the 1970s, economic growth attracted considerable international attention to Brazil. This growth also increased social mobility and national pride. However, during this process, military rule did not prepare any policy to solve traditional problems of Brazil - inequality and poverty. Actually, there was an argument that the benefits of economic growth went to everyone in society. In other words, they accepted that incomes of all sectors increased equally. However, the reality was different. During those years, although there was huge economic growth, income inequality and poverty continued to be high because the working class earned prominently less than the bourgeoisie (Schwartzman, 2000). This certainly shows that economic growth is not necessarily enough to decrease inequality.

In general, the 1980s could be seen as the lost decade not only for Brazil but also for many Latin American countries because of the debt crisis and the economic restructuring which began after it. The Brazilian government focused only on economic stabilization. This means that in the 1980s, there was not any activity to decrease inequality and poverty. Table 5 shows poverty in Brazil between 1981 and

1994. In general, poverty fluctuated in the last decade from 1981 to 1990. Except in 1986, poverty was above 13% in Brazil.

Table 5: Poverty headcount ratio at \$1.25 a day (PPP) (% of population), 1981-1994

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Poverty rate	13.64	13.66	16.65	15.50	13.52	9.70	13.64	14.68	13.72	17.23	.....	17.92	17.04	.....

Source: World Development Indicators

As indicated, inequality in Brazil did not decrease in the 1980s because of the debt crisis. In addition, in those years there was a huge inflation rate as shown in the Table 4, so this also caused a widening of inequality. In this point, it is important to indicate that there is an important relation between inflation and inequality. Classical economists and political economists argue that there is a positive correlation between inflation and inequality (Cardoso, Barros and Urani, 1995). High inflation of course is costly for both the rich and the poor. However, the poor loses more than the rich during the high inflationary years (Albanesi, 2001). Under a recession, unskilled workers who are the poor “are the first to lose their jobs, as firms hoard the trained labor force” (Cardoso, Barros and Urani, 1995: 152). At the same time, in this period, everything is expensive. Indeed, the poor slog on to afford their basic necessities. In addition, the middle income group is also affected from high inflation badly. Under high inflation, they usually sell their assets to afford their necessities and they cannot save their money. Cardoso, Barros and Urani (1995: 168) claim that megainflation “pushed the middle income groups into poverty”. Under high inflation, generally the poor and the middle income groups are wage earners whose earnings fluctuate (Cardoso, Barros and Urani, 1995). During this period, the rich can save their money

and protect themselves because they have huge wealth. So because of high inflation, inequality remains high and poverty increases in Brazil.

There is no valid evidence about GINI of Brazil before the mid-1970s because Brazil began to share its measurement about inequality with the mid-1970s. Table 6 basically shows GINI index in Brazil from 1976 to 1990. If we take into account that GINI is close to 1 means high inequality and if it is close to zero means low inequality, it can be said Brazil had a huge income inequality between 1976 and 1990. Political economic theory sees military rule in Brazil as a reason for this. According to this theory, democratically-ruled states have more chance to provide equality between individuals than dictatorship (Keller, 2012). Dictatorship basically does not focus on redistribution programs and policies which require equality. So from this viewpoint, military rule on Brazil for 21 years can also be seen as a reason for high inequality.

Table 6: GINI index, 1976-1990

Year	1976	1977	1978	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GINI index	0.62	0.62	0.60	0.59	0.58	0.59	0.60	0.59	0.60	0.59	0.60	0.62	0.64	0.61

Source: The Institute of Applied Economic Research (IPEA)

4.5 New republic period after twenty-one years of military rule

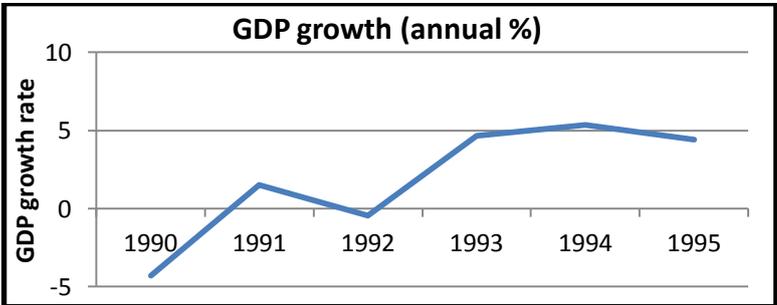
Both economic and social failure caused problems in military rule. As a result, twenty one years of military rule ended in 1985 peacefully and the new republic period began in Brazil. In 1988, a new constitution was prepared to replace the military constitution. With this new constitution, Brazil started to be defined as a

federal republic. The federal structure in Brazil comprises 26 States and 5564 Municipalities. “Tragically, the newly elected Brazilian president, Tancredo Neves, never served, having become ill prior to his inauration” (Fishlow, 2000: 345). Instead of him, Jose Sarney who was his vice president took the presidency. In those years, Brazilian economy had big problems such as high inflation and slow growth. Actually, with the debt crisis, ISI collapsed in Brazil, so the new government had to find a new economic strategy. At the beginning of 1986, the *Cruzado Plan* was presented which “froze wages and prices while increasing the income of the lowest-paid workers” (Vanden and Prevost, 2009: 376). Plan worked well until the end of the year, but at that time, inflation again increased and growth stopped. Moreover, with the new constitution, socioeconomic issues in Brazil started to change. Vanden and Prevost (2009: 376-377) argue that “the new 1988 constitution provided liberal benefits for many formerly left out of social services and distributed a larger portion of the federal tax receipts to the states and municipalities”. Generally, it can be said that until the 1990s, Brazil did not solve its problems both in economic terms and social terms.

In 1990, Fernando Affonso Collor de Melo was elected as a president; the first president who was elected directly by Brazilians after the 21 years of military rule. As a result of bad situations in the economy, he mainly focused on economic stabilization. However, in 1990, the third oil crisis occurred with the occupation of Kuwait by Iraq. Immediately, Western powers tried to stop this occupation. During this process, the Brazilian economy was affected badly. In this point, by taking support from Western countries and especially the IMF and the World Bank, Collor claimed that instead of an import substitution strategy, opening the economy to the global market could give better results (Arestis and Sawyer, 2007). This basically

means that neoliberalism began to take part in the Brazilian economy. With this viewpoint, Brazil started a privatization process. State-owned industries were privatized. Brazil invited foreign investment and also put low tariffs on imports. So, this reduced the barriers which had protected Brazilian industry from foreign competition. Figure 4 shows GDP growth rate in Brazil between 1990 and 1995. By looking at this figure, it can be understood that at the beginning, economic growth increased, but then in 1991, it began to decrease. It is true to say that economic policies which were implemented by Collor became ineffective with impeachment about Collor and inflation returned. Table 7 indicates inflation in Brazil between 1990 and 1997. Clearly, it can be seen that by 1991, inflation again started to rise. As a result, in 1992, Collor had to resign.

Figure 4: GDP growth (annual %), 1990-1995



Source: World Development Indicators

Table 7: Inflation (annual %), 1990-1997

Year	1990	1991	1992	1993	1994	1995	1996	1997
Inflation rate	2,947.73	432.78	951.65	1,927.98	2,075.89	66.01	15.76	6.93

Source: World Development Indicators

In 1992, Itamar Franco came to power. He continued Collor’s privatization policies. Maybe the most efficient work he made was the appointment of Fernando

Henrique Cardoso as the finance minister. Cardoso got full support from Franco to end inflation. Indeed, he prepared a new stabilization program which was called the Real Plan (*Plano Real* in Portuguese) in mid-1994 (Cammack, 1997). The aim of this plan was to create the lowest inflation in Brazil. So with the Real Plan, a new currency was established. In this way, without wage or price freezes, they aimed to reduce inflation. At the same time, with the Real Plan, Cardoso aimed to control the balance of payments and the budgets of the federal government and the states (Schwartzman, 2000). In general, the Real Plan:

... included policies which consolidated the neoliberal transition in the country, among them financial, trade and capital account liberalization, the privatization or closure of state owned productive and financial enterprises, fiscal and labor market reforms, de-indexation, the overvaluation of the currency, and the closure of several state agencies and department (Arestis and Sawyer, 2007: 22).

In the Figure 3, it is clear to see that economic growth increased with the Franco administration. Although at the end of the 1980s and beginning of the 1990s, GDP growth was negative, with Franco in 1992, growth began to increase and Brazil started to have positive growth. Moreover, until the Real Plan, Brazil generally had a high inflation rate which affected Brazilians badly (Schwartzman, 2000). However, with the Real Plan, the inflation rate decreased dramatically. In the Table 7, it is clear to see that the inflation rate decreased dramatically since 1994.

In economic terms, there were positive improvements in Brazil since 1994. The economy of Brazil grew seriously, in addition, inflation decreased dramatically. However, inequality and poverty were still very high. In the Table 5, it can be seen that poverty rate in Brazil was still high at the beginning of the 1990s. Furthermore, Table 8 shows GINI index in Brazil between 1991 and 1996. It is obvious to see that

income inequality increased a little bit during Franko's period between 1992 and 1994. So, it is clearly to say that economic growth alone was not sufficient to decrease inequality and poverty.

Table 8: GINI index, 1991-1996

Year	1991	1992	1993	1994	1995	1996
GINI index	...	0,58	0,60	....	0,60	0,60

Source: World Development Indicators

Certainly, Brazil had a huge inequality problem. 0.60 GINI index can be seen as a medium level, but it was not the case. Compared to other countries, Brazil was in the top five in terms of inequality. By looking at global GINI index ranking by country, it can be understood the rank of Brazil among countries. Table 9 shows the top countries in GINI index in the year of 1993. Clearly, Namibia had the highest GINI index in the world. In addition, we can see that Brazil had the fifth highest inequality in the world in 1993, but it was the top among Latin American countries. So, from this point, it can be true to say that Brazil had obviously huge inequality problem.

Table 9: GINI index ranking in 1993

<i>List of countries by inequality</i>	1993
Bolivia	0.54
Botswana	0.63
Brazil	0.60
Central African Republic	0.61
Colombia	.....
Guatemala	.....
Haiti	.....
Honduras	0.54
Namibia	0.74
Paraguay	.....
Sierra Leone	0.63
South Africa	0.59
Thailand	.....

Source: World Development Indicators

In fact, after military rule, democracy in Brazil began to gain power which caused a reduction in inequality. Moreover, it is right to say that without reducing traditional inflation of Brazil, it is not easy to control inequality. In addition, it is necessary to improve conditions of African slaves and standards of the northeastern region to be able to decrease inequality. None of the past presidents in Brazil really focused on these issues. They only cared about economic growth. However, Cardoso and Lula created a huge difference in Brazil with their policies. Both of them made particularly important analysis and provided policies in that direction. Thus, the remainder of this thesis will focus on the Cardoso and Lula periods and, in particular analyze their socioeconomic policies designed to fight against inequality and poverty. What becomes clear is that during their terms of office, economic growth increased whilst inequality decreased.

5. SOCIOECONOMIC POLICIES OF CARDOSO AND LULA: END OF INEQUALITY?

As indicated earlier, Brazil is an interesting case to examine because along with the economic growth of the last decades there has been evidence that inequality in Brazil has started to narrow. I argue that the most important inequality theorem – Kuznets' Theorem – does not explain well the decrease of inequality in Brazil. In other words, we should be cautious about economic growth in Brazil being the key to decreases of inequality as hypothesized by Kuznets. It is essential to remember that this kind of growth is not unprecedented in Brazil. As we have seen, the Brazilian economy has had high growth at several periods in history, but its inequality had rarely or never narrowed. Instead of narrowing, its inequality had widened. At this point, there had to be something in Brazil in the last two decades which accounts for this kind of decrease in inequality. In this case, it can be said that in the last 20 years, both with Cardoso and Lula, Brazil changed its socioeconomic policies. As a result, after long years, its inequality started to decrease for the first time. Indeed, my purpose is to show that socioeconomic policy changes in Brazil with Cardoso and Lula have the most effect on the decrease of inequality.

5.1 Period of Fernando Henrique Cardoso (January 1995 – January 2003)

The success of the Real Plan took Fernando Henrique Cardoso to the presidency in 1995 and he became the 34th president of Brazil. In October 1994, there was a general election in Brazil. Cardoso was a candidate of the Party of Brazilian Social Democracy (*Partido da Social Democracia Brasileira* – PSDB). His

major opponent was Lula from the Workers' Party (*Partido dos Trabalhadores* – PT). Cardoso, by using his prestige, gave many promises to Brazilians to improve the economy and living standards of the society of Brazil (The Economist, 3rd October 2002). It is true to say that the success of the Real Plan motivated many Brazilians and parties to support Cardoso. Basically, Cardoso was not only supported by the PSDB but also by the Brazilian Democratic Movement Party, the Liberal Front Party and the Brazilian Labor Party. As a result, he won by getting nearly 55% of the votes and in 1995, he became the new president of Brazil (Vanden and Prevost, 2009). In fact, because of the success of the Real Plan, all Brazilians hoped that Cardoso could solve traditional problems of Brazil, so in those years, this was the biggest enigma.

As mentioned earlier, Cardoso was different from former presidents insofar as he considered political, economic and social issues together. In general, during his two administrations, Cardoso tried to maintain macroeconomic stability and he tried to solve other important problems of Brazil. For instance, he reduced economic problems such as inflation and high prices, but he also focused on social problems to reduce poverty and inequality. However, he mainly provided social policies during his second term. So from this point, it can be understood that Cardoso aimed first to solve economic problems and then social problems. Of course, his party – the PSDB – also had an effect on this. Cardoso was an academic with a socialist background, so this helped him in designing his policies. Mainly, he chose the ways such as negotiation and coalition. In fact, this made him popular among Brazilians. In general, Cardoso was known as smooth, cosmopolitan and academic. Before getting into politics, he was known as a dependency theorist. That may be why, during his

presidency, he focused on social policies. On the other hand, in the economy, he was much more close to neoliberalism because he argued that for economic growth, this was the most successful policy. In addition, Cardoso was close to Tony Blair and Bill Clinton. So they also influenced his policies.

5.1.1 Economic policies of Cardoso

The Real Plan gave Brazil crucial economic stability. By using this stability, Cardoso prepared his economic policies. Firstly, he decided to use pegged exchange rate. This means that “the real was to be devalued by 7.5% a year against the dollar” (The Economist, 27th March 1999a: 3). In this way, inflation was going to fall. Moreover, Cardoso decided to use the open market economy – open trade. It can be true to say that the IMF and the World Bank were effective in this policy. Since the 1980s, free market ideology had become popular. And states shaped their policies in this direction. Actually, developing countries are affected by free market ideology through the IMF and the World Bank. Under this ideology, during his presidency, Cardoso focused on decentralization, privatization, deregulation and liberalization policies (Montero, 2002). All these show that he began to support neoliberalism.

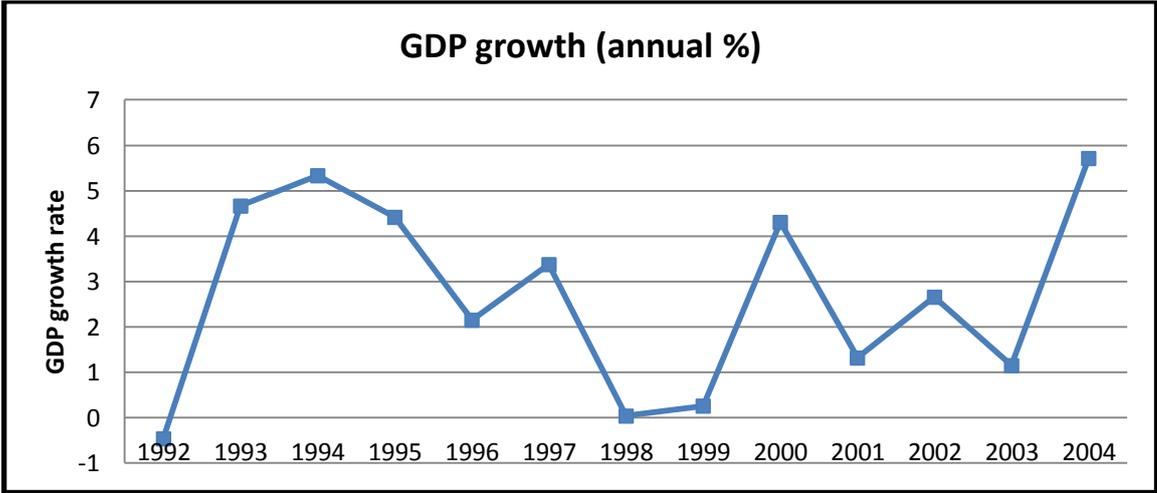
Cardoso especially focused on privatization. He prepared many privatization programs. Many public firms such as mining, steel, aluminum, petroleum and petrochemicals were privatized during his period. For example, in 1998, state telecoms firms were privatized (The Economist, 3rd October 2002). In those years, Brazilians paid thousands of dollars for telephone lines because they were in short supply. However, after privatization, even poor Brazilians could reach telephone

lines. Furthermore, the number of households who got telephones increased between 1994 and 2001 from 20% to 58% (The Economist, 3rd October 2002). The number of computers also rose in Brazil in those years. In fact, this means that privatization gave benefits to a whole range of Brazilians. Privatization also encouraged foreign investment. By the mid-1990s, foreign investment started to increase in Brazil (Yulu, 2007). Of course, in those years, foreign investment gave benefits to the economy of Brazil. Moreover, with Cardoso, the industrial sector increased its importance compared to the agricultural sector.

Furthermore, Cardoso increased taxes and cut spending to be able to reduce the fiscal deficit. According to him, the financial system of Brazil could be seen as an advantage for economic growth. Actually, it is certainly different from some other Latin American countries. Brazil has a mixed financial system, but always it is rooted in Brazilian society. For example, banks are controlled 50% by government, 25% by Brazilian families and 25% by international banks. At the same time, “domestic debt is in the hands of local people” (The Economist, 19th January 2012: par.72). So these kind of things gave benefits to Brazil. As a result of all those economic policies, Brazil’s currency, the Real, which was introduced with the Real Plan in 1994, became strong and stable. During this process, there was also a positive economic growth in Brazil compared to the beginning of the 1990s. Figure 5 shows GDP growth in Brazil from 1992 to 2004. It is true to say that at the beginning of Cardoso’s period (between 1995 and 1997), Brazil had high growth. But it is also important to look at the GDP per capita growth to understand the effects of GDP growth on Brazilians. In other words, it is essential to learn whether high GDP growth affected individuals in the same way or not. Figure 6 shows GDP per capita growth in Brazil between 1992

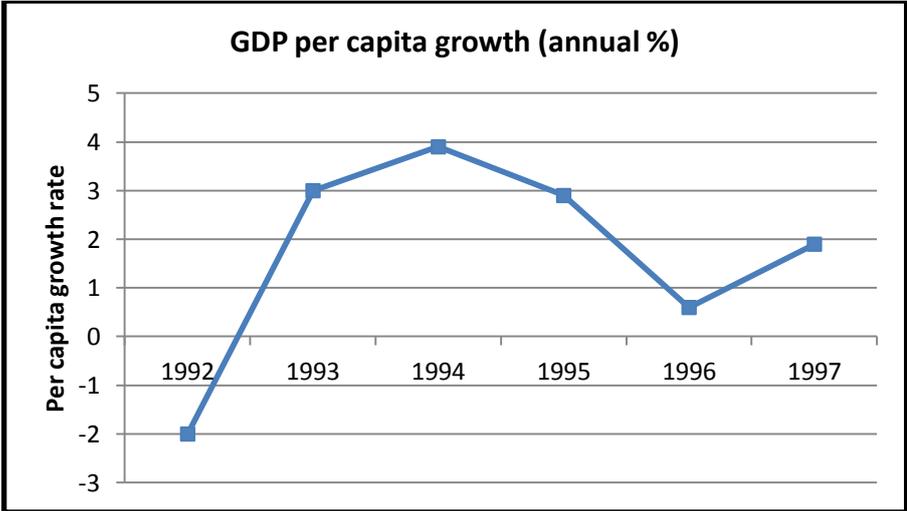
and 1997. It can be clearly seen that during this process, Brazilians benefited from GDP growth in nearly the same amount. This means that GDP growth was evenly distributed to all levels of Brazilians society.

Figure 5: GDP growth (annual %), 1992-2004



Source: World Development Indicators

Figure 6: GDP per capita growth (annual %), 1992-1997



Source: World Development Indicators

One of the traditional problems of Brazil – inflation – started to go down as a result of Cardoso’s policies. In Table 10, inflation in Brazil between 1993 and 1999 can be seen. It is clear that with the Real Plan, since 1994, it decreased dramatically

from 1,927.98% to 4.86%. Ultimately, with the strong currency and low inflation, Brazilians, especially the poor, started to live better. Basically, their purchasing power increased because under high inflation, everything is expensive. As mentioned, it is expected that with the decrease of inflation, inequality also began to decrease. Clearly, the dramatic decrease of inflation in Brazil at the first term of Cardoso caused a decrease in inequality.

Table 10: Inflation, consumer prices (annual %), 1993-1999

Year	1993	1994	1995	1996	1997	1998	1999
Inflation rate	1,927.98	2,075.89	66.01	15.76	6.93	3.20	4.86

Source: World Development Indicators

Brazil also had huge corruption problem. It is right to state that it is hard to measure corruption. According to Transparency International, which is a non-governmental organization, Latin American countries have high rates of corruption (The Economist, 16th June 2001). Privatization was surrounded by corruption. Moreover, bribery and influence-peddling were common in the drugs trade and the need to finance political campaigns also increased the possibility of corruption (The Economist, 16th June 2001). In fact, if democracy develops well and states have a small role in the economy, this possibility would certainly decrease. Cardoso gave an interview to *the Economist* and said that “in Brazil, there has never been as much transparent as now, and there has never been a government so willing to avoid covering things up as now. Never was society so demanding as now, nor the media as active” (The Economist, 16th June 2001: 61). Actually, under Cardoso, Brazil tried to make reforms to solve the corruption problem. For instance, they put obligatory

tenders for government purchases. In addition, both local and national government began to give detailed accounts (The Economist, 16th June 2001).

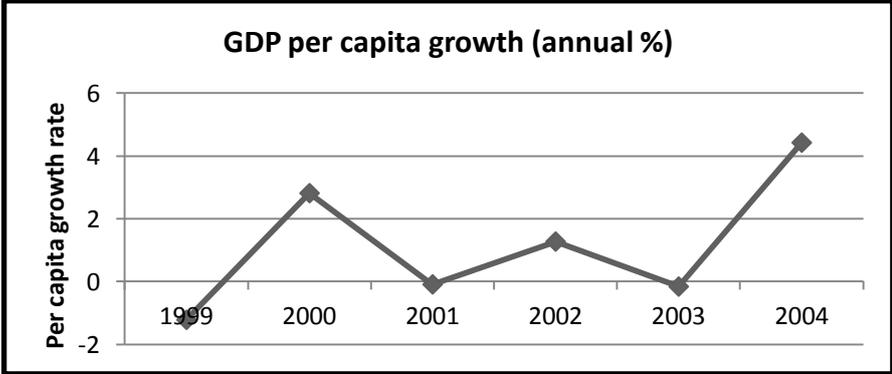
Although it was not easy for Cardoso to gain the confidence of the Brazilians, the problem solving effort on inflation, corruption, inequality and poverty gave reason for them to believe him. As a consequence of many positive developments in the economic arena, in the 1998 elections, Cardoso was reelected against Lula and Gomes by getting 53% of the votes (Vanden and Prevost, 2009). Brazilians trusted him to solve the traditional problems of Brazil. On the other hand, by the end of the 1990s, problems began in the Real Plan and a crisis occurred. Of course, it caused disappointment in Brazil. Many people accused and criticized Cardoso for this failure. For instance, Cammack (1997) argues that Cardoso mainly focused on neoliberal restructuring policies and he pushed the Real Plan into the background. That is why the Real Plan did not become successful in the end.

In 1999, the Brazilian economy went into crisis. Not only had the failure of the Real Plan but also the world economic slowdown and the flight of investors created panic in the Brazilian economy. As a result, the value of the currency of Brazil – the *real* – decreased abruptly. At the same time, there was also a possibility for it to continue to decrease in value. As a result, Brazil had nearly zero growth rate in 1999 which is shown in the Figure 4. Actually, in this period, the *real* lost its value about 35% against the dollar (The Economist, 27th March 1999b). At this point, huge discussion began in Brazil whether Brazil was going to tie its currency to dollar or not as Argentina did. The Brazilian governments never accepted tying their currency to another currency such as the dollar. Neither would Cardoso accept this. At this point, Cardoso decided for the devaluation of *real*, because he was aware that devaluation

was important for Brazilian exports. With this policy, Brazil got an advantage in trade, especially compared to Argentina.

After this crisis, the growth rate returned to previous rates. Figure 7 shows GDP per capita growth in Brazil between 1999 and 2004. Basically, in 1999, there was negative per capita growth. But with high growth in GDP in 2000 as the Figure 5 shows, per capita growth also increased. However, in 2001, there was an international crisis which affected Brazil badly. Until 2004 Brazil had low economic growth which changed between 1% and 3%. This can be seen clearly in the Figure 5. In those years, per capita growth was low too. Specifically, Figure 7 shows that per capita growth was not above 1% per year until 2004.

Figure 7: GDP per capita growth (annual %), 1999-2004



Source: World Development Indicators

Furthermore, inflation again started to rise steadily by 2000. Immediately Cardoso wanted to make an agreement with the IMF. However, this agreement became insufficient to give confidence to financial markets. So Cardoso could not prevent the increase of inflation. Table 11 shows inflation in Brazil between 1998 and 2003, indicating that inflation increased from 4.86% to 8.45% during the last years of Cardoso between 1999 and 2002. This means that it doubled during this period.

Table 11: Inflation, consumer prices (annual %), 1998-2003

Year	1998	1999	2000	2001	2002	2003
Inflation rate	3,20	4,86	7,04	6,84	8,45	14,72

Source: World Development Indicators

5.1.2 Social policies of Cardoso

As mentioned, Cardoso considered not only economic problems but also social problems. In his second term, he mainly concentrated on social policies. It is important to state that it was the period when growth was slower. This directly shows that economic growth is not essential in the process of preparing social policies to fight against inequality. It is possible to concentrate on the solution of inequality without economic growth. Cardoso was aware that there was a huge personal and regional inequality in Brazil. In addition, he knew that there was enormous unemployment and poverty. For these reasons, he thought that it was essential to do something for these problems. It would be true to say that Brazil did not have too large financial resources to solve inequality problem immediately. In this point, it is necessary to remember that good policy is as important as huge financial resources to solve problems. Cardoso was aware of this, so during his last years, he mainly prepared anti-poverty and anti-inequality strategies which were the first in Brazil to solve traditional problems. Basically, Cardoso used Spain as an example which transformed its society from a poor to a wealthy and democratic one (The Economist, 19th November, 1998). In the end, he could not achieve his purpose completely, but he started many policies for this.

According to Cardoso, capital is more beneficial to the periphery than the centre (Cammack, 1997). Of course, it is not possible that all parts of the periphery get benefit. However, he believed that Brazil had a chance to turn this to a benefit for all Brazilians. Moreover, Cardoso argued that for increasing welfare level, it is not necessary to change the mode of production (Cammack, 1997). In other words, under the same mode of production, you can solve the problems and increase welfare. According to him, the failure of socialism is the main indicator of this. This shows that under a different mode of production – socialism – problems were not solved. So Cardoso suggested that by staying in capitalism, it is essential to make universal programs to increase welfare level. That is why he used neoliberal policies in the economy and provided many social policies to increase welfare. Furthermore, Cardoso stated that “I am against inequality and against injustice, so I consider myself of the left... The left today is the trend towards growing equality, which makes programs universal” (Cammack, 1997: 238).

With the new National Constitution of Brazil (Title VIII, Art. 203-204) in 1988, the stage for creation of social policies was created (Fenwick, 2009). In other words, with this new constitution, more social policies were aimed. Cardoso, by using this constitution, tried to provide social assistance programs to decrease inequality. Firstly, he created the National Secretary of Social Assistance (*Secretaria da Assistencia Social* – SNAS) in 1995 (Fenwick, 2009). Moreover, he supported PRODEA (*Programa de Distribuição Emergencial de Alimentos*) to provide basic necessities for poor families for one month. Actually, this program was active between 1993 and 2000 (Hall, 2006). At the same time, Cardoso focused on unemployment insurance and created a new system. It was not a big system, but it is

true to say that many Brazilians benefited from this insurance. In 1995, nearly, 4.5 million people who lost their jobs benefited from unemployment insurance. To be more precise, this insurance system helped about 60% of the total unemployed in the same year (Schwartzman, 2000).

Deininger (1998) states that according to empirical evidence, land reforms give beneficial results to people, such as equity and equality. It is true to say that land distribution was very unequal in Brazil because of colonization. Actually, Brazil had slavery long years which caused unequal landholding. So land reform to equalize the country was seen as a rational way by the political parties. For this reason, in 1969, a land reform institute (National Institute for Colonization and Agrarian Reform – INCRA) was established. With this institute, 10 million hectares were distributed to 200,000 families and 14 million hectares were colonized by 75,000 families (Deininger, 1998).

The purpose of the Brazilian interventions is to establish cheaper, more agile policy alternatives to centralized land reform in an environment where the issue of land reform is high up on the political agenda and potential beneficiaries have at least some idea of what to do with the land (Deininger, 1998: 19).

With Cardoso, land reform increased its importance because he thought that land reform could create more equality among Brazilians. There were many landless peasants, so by enacting a land reform, he tried to provide income for them. At the same time, modern agriculture developed only in the South of Brazil. In those places, there were mainly European immigrants. On the other side, in the northeast region, agriculture did not grow. They needed capital and technology. In addition, “many landholdings were in the Amazon and unsuitable for agriculture, often for private exploitation of any kind” (The Economist, 27th March 1999b: 15). For this reason, in

1996, Cardoso created a federal Minister for Agrarian Reform. Furthermore, he decided to make Agrarian reform which means that large rural properties were divided into family plots.

For land reform, in 1994, US\$0.4 billion was used; whereas, under Cardoso in 1995 US\$1.3 billion was used. At the beginning of the land reform's years, government used US\$30,000 per person. However, this was costly and lengthy and bureaucratically cumbersome (Deininger, 1998). So, Cardoso decided to change the procedure of land reform. According to the new mechanism, "land is selected by community-groups on a willing seller-willing buyer basis" (Deininger, 1998: 20). In this way, Cardoso aimed to decrease the price of land. Moreover, payments were going to be in cash rather than discounted government bonds. In addition, the role of the federal government was decreased. Project could be implemented at the state level. Furthermore, "the only commonality between pilots and the nation-wide land reform process is the fact that beneficiaries under the new process have access to a subsidized loan under a special program for land reform beneficiaries" (Deininger, 1998: 21).

Actually, 30% of rural entrepreneurs are defined as family farms (Rocha, 2009). Family farms provide an important amount of national food production. At the end of the 1990s, "family farms produced 67% of beans, 84% of manioc, 48% of corn, 31% of rice, 52% of milk, 58% of pork, 40% of poultry and eggs, 58% of bananas, 24% of meat, 25% of coffee – all staples in the Brazilian diet" (INCRA/FAO, 2000, cited in Rocha, 2009: 58). To help family farms, in 1996, PRONAF (the National Program for Strengthening Family Agriculture) was established (Rocha, 2009). Basically, this program provided an agricultural credit, crop, insurance and

technical assistance. This program was administered by the Ministry of Agrarian Development (MDA).

There was also huge inequality in education which would cause income inequality in future years. Income inequality and education inequality tend to go together.

People with higher incomes usually make sure that their children have good educational opportunities and the children who get more education can usually earn higher incomes with which to keep their families in advantaged positions; lower income people cannot provide as much education for their children and the latter correspondingly earn below-average incomes in their work (Sheahan, 1987: 35).

This means that by providing an equal education, income inequality can be decreased. With this relationship in mind, Cardoso focused on education. He prepared a program for basic education called Basic Education Maintenance and Development and Teachers' Fund (*Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magisterio* – Fundef) which was established in 1996 to provide funds for primary education (Almeida, 2005). This program gave certainty that money was going to be used for education. Basically, 60% of spending of Fundef went to teachers' salaries and 40% were going to be spent for schools (Almeida, 2005).

Although Cardoso wanted to stabilize the Brazilian economy with the Real Plan, by 1996 problems began. Of course, this caused disappointment, as “rigid macroeconomic stabilization pushed Brazil into a period of critical uncertainty from external shocks that led to the currency's eventual devaluation in 1999 and a subsequent decrease in household per capita income” (Vargas, 2006, cited in

Fenwick, 2009: 105). As a result, the Real Plan ended in 1999 with bad effects. Especially poor population was affected by devaluation. Although there was an expectation that with the Real Plan Brazil's traditional problems – inequality, poverty, landless farmers and murder of street children – could be solved, they continued. At the same time, violent crime increased because of the rise in unemployment and drug consumption. From this point on, Cardoso decided to prepare new socioeconomic policies to be able to solve all these problems.

Cardoso understood that without solving social problems, Brazil could not catch stable growth. So what was the biggest social problem of Brazil? Of course, it was inequality. In fact, Cardoso argued that inequality could be solved by focusing on poverty and education. In other words, he believed that it was essential to solve poverty and education problems to be able to create a more equal Brazilian society. For this reason, Cardoso created the first national conditional cash transfers (CCTs) program in Brazil which is given through certain conditions. This program did not become popular only in Brazil but also among other Latin American countries. Although CCTs were designed in Brazil, firstly Mexico started to use this large program. Mexicans originally called it *Progresa* and now it is called *Oportunidades* (The Economist, 17th September 2005). Now, similar CCTs are used by many Latin American countries. Brazil's first CCT was *Bolsa Escola* (School Allowance, in English) which was about education. Actually, there was a huge difference between the top and the bottom of society in terms of education. And this difference caused income inequality among Brazilians. This program aimed to reduce this difference. *Bolsa Escola* was put in practice in 1995 (Hall, 2006), but it increased its importance and was used more in the second term of Cardoso. This program firstly began in

some cities such as Campinas, Sao Paulo and Brasilia, and then extended to other parts of the country (Schwartzman, 2005).

The idea of Bolsa Escola “has been pushed by Gristovam Buarque, the left-wing governor of the federal district” (The Economist, 18th October 1997: 84). The idea was simple and clear. According to Bolsa Escola, the government paid families to send their children to school. Because although officially Brazilian children have to go to school from seven to fourteen, poor families instead of sending their children to school sent them to work. In 1995, nearly five hundred thousand children between five and nine years old went to work (Schwartzman, 2000). Contrary to what is believed, these child workers were not used mainly for profits by business owners. The reality was different. Children had to choose to work because their families needed help because they did not enough income. So by working, they wanted to help their families. For this reason, government began to pay R\$15 per child to attend school. In addition, maximum three children in one household could benefit from this program. This means that maximum R\$45 could be given to each household (Fenwick, 2009). However, if children miss more than 15% of classes, payments were going to be stopped.

In general, education in Brazil was poor. Since 1960 there were attempts to improve it but with little effort. Nearly 5% or 6% of GDP was reserved for public and private learning as many European countries did (The Economist, 18th October 1997). So this shows that finance was not a problem for Brazilian education. The main problem was that Brazil spent money badly. In addition, the Brazilian government did not make effective campaign to increase school enrollment. For instance, out of 100 who started elementary school, only 40 could reach ninth year,

in the mid-1990s (The Economist, 18th October 1997). There were many examples that a Brazilian family took their children out of school and sent them to work. Eldorado is one of the poorest places in Sao Paulo and in that place, there were many child laborers. For example, the Teixeira family lived in small home with six children. Before Bolsa Escola, their children went to work, but with this program, the government started to pay them a certain amount of money for education and medical check-ups of children. So Teixeira family started to send their children to school (The Economist, 29th July 2010).

Cardoso also universalized primary education to be able to decrease inequality. He believed that universalization of education helps to reduce inequality (The Economist, 4th March 2006). Actually, the quality of schools was uneven in Brazil. For instance, public universities had high quality. Especially the 27 federal universities and three state universities in Sao Paulo provided really good education. However, these universities required a competitive entrance exam. And only rich families' children could pass that exam because private schools prepared them well for this exam (The Economist, 27th March 1999b). The Brazilian government was also aware of this, so in the 1990s they tried to find a solution to this. From this viewpoint, during the Cardoso's administration, a school improvement project, Fundescola, was created to increase the quality of Brazilian schools in rural areas and in poor areas (Schwartzman, 2005).

In general, Fundescola in itself was constituted with three projects which involved a ten year program. "The Fundescola I, approved in April 1998, was designed to develop an initial set of school-based instruments and support structures to improve school equity and effectiveness and to increase public awareness around

the issue of school quality” (Horn, 2002: 1). Then, the second project was established in June 1999 to improve and extend the goals of the first project because Cardoso saw that this project could give benefits to the poor. Finally, Fundescola III included two phases. Fundescola IIIA was established in June 2002 and Fundescola IIIB was put into practice by July 2006 (Horn, 2002). The aim of this project was to improve educational performance, reduce educational inequality, and increase the effectiveness of schools. On the whole, Fundescola focused on three phases which are the school, the education secretariat and the broader public. By working on them one by one, it tried to equalize quality of schools in Brazil. It can be said that with Fundescola, many more schools were surveyed and development plans were implemented.

Cardoso also prepared two other important programs to fight against poverty and inequality. The first one was *Bolsa Alimentação* (Food Allowance, in English) which was created in 2001 (Fenwick, 2009). The Ministry of Health was responsible for this program. *Bolsa Alimentação* provided payments to fulfill low income families’ basic food needs. Especially the poor families with infants or pregnant and lactating women were chosen to help. In this way, the program aimed to decrease malnutrition and infant mortality. The payments of this program changed between R\$15 and R\$45 per month to each household (Fenwick, 2009). In addition, payments were made by an electronic card. The second program was *Auxílio Gas* (Gas Subsidy, in English). This program was created in 2002 (Fenwick, 2009). The National Secretary of Social Assistance was responsible for this program. *Auxílio Gas* provided cooking gas for low income families with a monthly payment of R\$7.50 (Fenwick, 2009).

Family Health program (*Programa Saude da Familia* – PSF) can be seen as the main health care program of Brazil. In the beginning of the 1990s, the “community health agents program” was established. It can be said that the PSF got its roots from this program. Under PSF, there were different teams and each team was responsible for nearly 3,450 people. The maximum number for a team was 4,500 people (Macinko, Guanais and Souza, 2006). From 1990 to 2002, PSF increased its importance among Brazilians. Actually, between those years, its beneficiaries also increased. With PSF, Cardoso aimed to increase health care service and give better knowledge about health to Brazilians. Furthermore, one of the other aims of PSF was to reduce the fertility rate because according to research, high fertility rate also increased inequality (The Economist, 27th March 1999a). But how did it affect people? For example, in 1984 3.5 children were born per woman which was high compared to developed countries. Nearly twenty years later, these children became the labor force who tried to find a job. Of course, Brazil could not provide work for all of them. Children of rich families could find a job easier than the poor’s because of favoritism and cronyism (The Economist, 27th March 1999a). However, children of poor families did not have this kind of practice, so many of them could not find a job. Even if they found a job, some of those jobs provided low wages to them. In fact, this increased inequality. This means that it is necessary to decrease fertility rate.

Not only Cardoso but also his wife – Ruth Cardoso – tried to do something for social welfare. During the Cardoso’s period, many social assistance programs were created. But it was also necessary to fight against inequality collaboratively. In other words, it is necessary that both government – ministries – and civil social

organizations worked together. For this reason, Ruth Cardoso created the *Comunidade Solidaria* (Solidarity Community, in English) program. With this program, she tried to create cooperation between ministries and civil social organizations. Actually, she aimed “at extending the borders of the public sphere beyond the state itself” (Almeida, 2005: 3).

In the 1990s, there was no certain evidence whether spending went to the people who really needed it. For instance, in those years, the biggest spending was on pensions. The problem was that much pension spending was spent for people who were not necessarily poor or old. Cardoso was aware of this. The other important issue in Brazil was the age of retirement. Contrary to rich countries, Brazilians retired at early ages, generally in their 50s. In addition, after retiring, many of them continued to work at another job. Of course, all these issues damaged the Brazilian economy, so Cardoso tried to solve this problem by initiating a pension reform. With this reform, he aimed to give more flexibility to the labor market (The Economist, 21st November 1998). For this reason, he prepared new laws. However, he could not accomplish them completely. Basically, he reduced benefits of pension for those who retired at early ages from the private sector. But the same reduction was not accepted for the public sector by the Supreme Court (The Economist, 22nd February 2003a). At the same time, he tried to expand formal employment. In this way, Cardoso could to reduce informal employment which would increase tax payments on income (The Economist, 4th March 2006).

As already described at the beginning of this thesis, the North-eastern region was the poorest region in Brazil. However, by the end of the 1990s, their positions started to change. Actually, their standards started to improve, so it can be said that

their life became better with Cardoso's social policies. In general, nearly 26 million Brazilians got help from government through anti-poverty and anti-inequality policies until the end of the 1990s (The Economist, 27th March 1999b). But this number increased in the following years. In brief, we can see many positive developments from 1995 to 2002 under the Cardoso's administration.

Cardoso tried to reduce education inequality with Bolsa Escola, Fundef and Fundescola. As a result, the education system improved and expanded. It is possible to say that nearly all of Brazilian children were going to primary school for the first time in Brazilian history. Briefly, the illiteracy rate decreased in the country. At the same time, enrollment in secondary and higher education also increased.

Furthermore, many Brazilians began to go to university. In this point, it can be stated that social policies were effective in these improvements. On the other side, the effects of social programs about education, such as Bolsa Escola, on income inequality cannot be seen immediately. After years, this can be measured. But it is expected that more education provides higher incomes for the poor.

Table 12: Selected social indices in 1992 and 2002

Indices	Years	
	1992	2002
Illiteracy rate (15 year-olds or older)	17.2	11.9
Child illiteracy rate	12.4	3.8
Children at school (7-14 year-olds) (%)	81.9	94.5
Average number of years behind in studies	2.1	1.1
Children (10-14 year-olds), more than two years behind in the curriculum (%)	37.3	16.1
Average years of study (25 year-olds or older)	4.9	6.1
People with eight years of study or more (5)	28.6	39.5
Infant mortality (per thousand)	45.2	27.8
Unemployment rate (15 year-olds or older)	6.6	9.2
Poverty rate* (%)	40.8	32.9
Indigence rate** (%)	19.3	13.4

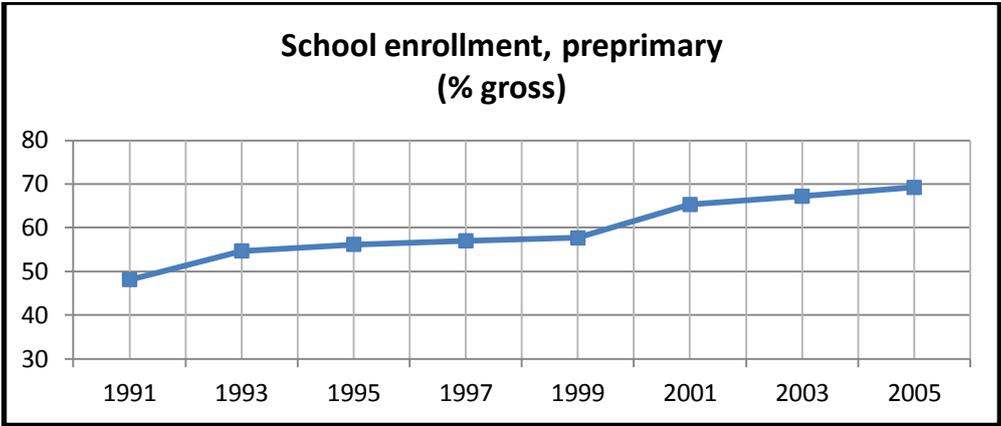
Source: IBGE. *Pesquisa Nacional por Amostra de Domicílios* (PNAD) Household Census; elaboration: *Instituto de Estudos do Trabalho e Sociedade* – Institute of Studies on Labor and Society.

* People with income below poverty line (R\$125.00 in Reals, September 2002)

** People with income below the poverty line (R\$62 in Reals, September 2002)

In Table 12, selected social indices such as illiteracy rate, infant mortality rate and poverty rate of Brazil between the years 1992 and 2002 can be seen. So from this table, we can see changes in those indices with Cardoso's policies. Obviously, the illiteracy rate decreased from 17.2% to 11.9% between 1992 and 2002. In addition, the child illiteracy rate also decreased dramatically from 12.4% to 3.8% in the same period. At the same time, from the Table 12, it can be seen that enrollment to primary and secondary schools which includes children between 7 and 14 year-olds increased from 81.9% to 94.5% between 1992 and 2002. Although preprimary school was not common in Brazil, as a result of Cardoso's education policies, enrollment in preprimary school began to increase. Figure 8 shows preprimary school enrollment in Brazil between 1991 and 2005. It is clear that by the end of the 1990s, it increased steadily.

Figure 8: Preprimary school enrollment (% gross), 1991-2005



Source: World Development Indicators

As noted earlier, for health care the PSF was established by Cardoso. This program also became successful. From the Table 12, it can be seen that the infant mortality rate decreased significantly from 45.2% to 27.8% between 1992 and 2002. In Table 13, the infant mortality rate in Brazil was given more specifically between the years 1994 and 2003. Obviously, it can be seen that it decreased from 41% to 27.7% between 1995 and 2002 during Cardoso’s period.

Table 13: Infant mortality rate (per 1,000 live births), 1994-2003

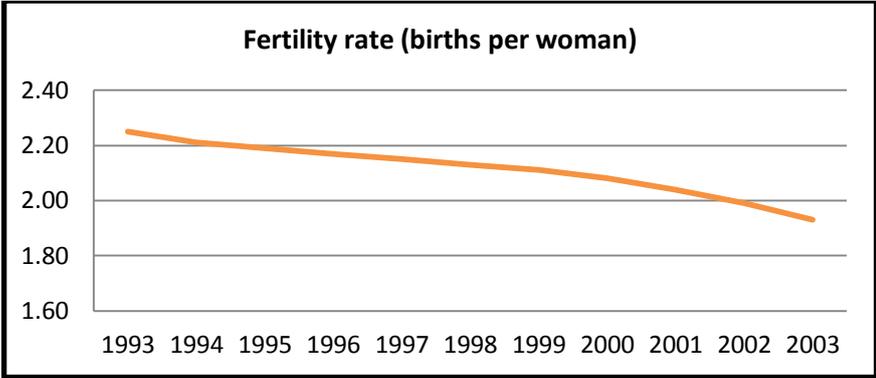
Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Infant mortality rate	42,8	41,0	39,1	36,9	34,9	33,0	31,2	29,4	27,7	25,7

Source: World Development Indicators

Furthermore, it can be said that some types of healthcare increased. For example, “physician availability increased by 87 percent, Hepatitis B coverage increased by 20 percent, and access to prenatal care increased by 50 percent” between 1999 and 2004 (Macinko, Souza, Guanais and Simoes, 2007: 295). Figure 9 shows fertility rate of Brazil from 1993 to 2003. From this table, it can be seen that

the fertility rate decreased steadily during the Cardoso's period. This means that one of the aims of PSF was also achieved.

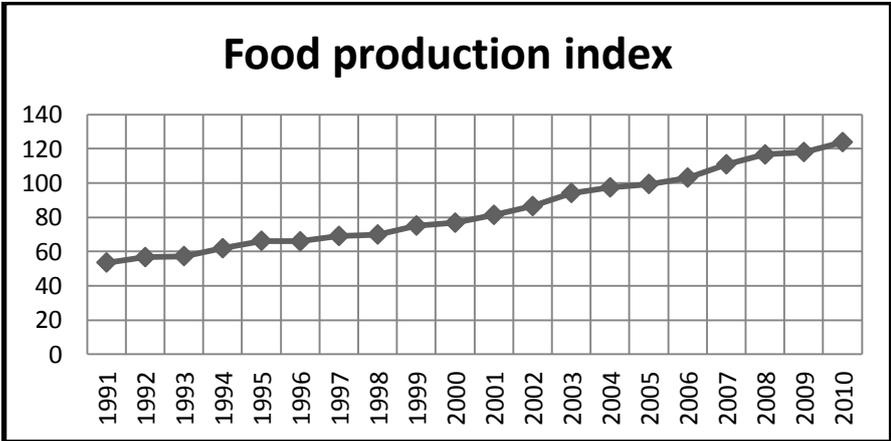
Figure 9: Fertility rate, total (births per woman), 1993-2003



Source: World Development Indicators

By initiating an Agrarian reform, Cardoso distributed land to the landless. In addition, with PRONAF, he aimed to provide credit, crop, insurance and technical assistance to farmers to produce more. In this way, Cardoso sought to provide income to poor people to decrease income inequality. As a result of these policies, food production increased. Food production index in Brazil between 1991 and 2010 is given in Figure 10. Clearly, it rose from 65.9 to 85.2 during Cardoso's period between 1995 and 2002.

Figure 10: Food production index (2004-2006 = 100), 1991-2010



Source: World Development Indicators

It can be said that there is a close relationship between poverty and inequality. In other words, reduction in poverty causes a reduction in income inequality. Actually, that is why Cardoso prepared many social programs to reduce poverty. In this point, it is essential to remember that there are three degrees of poverty: extreme poverty, moderate poverty and relative poverty. Extreme (absolute) poverty refers to the lack of basic needs to survival. This means that under extreme poverty, people lack sufficient food, safe water, health care, education and clothing. Moderate poverty basically means limited access to basic needs. And finally, relative poverty is determined by household income level which is below an average national income (Coudouel, Hentschel and Wodon, 2002). Extreme poverty is more important to see the rate of the poor in a country. Nowadays, the World Bank specifies international poverty with an earning of \$1.25 a day (Coudouel, Hentschel and Wodon, 2002). Table 14 shows the poverty headcount ratio at \$1.25 a day (PPP) (% of population) in Brazil between 1995 and 2003. During Cardoso's period from 1995 to 2002 the poverty rate fluctuated, but it did not decrease so much.

Table 14: Poverty headcount ratio at \$1.25 a day (PPP) (% of population), 1995-2003

Years	1995	1996	1997	1998	1999	2000	2001	2002	2003
Poverty rate	11.3	12.4	12.3	11.0	11.4	....	11.8	10.6	11.2

Source: World Development Indicators

Although poverty did not change during Cardoso's period, there were many positive developments in education, health and food production. It can be right to indicate that the social policies of Cardoso became successful and he was on the way to reaching his aims. According to the UN Human Development Index, quality of life in Brazil improved at the end of the 1990s (The Economist, 27th March 1999a).

Moreover, Soares (2007, cited in Rocha, 2009) found that by the end of the 1990s, income per capita, especially for the poor, began to increase (The Economist, 27th March 1999a). In addition, if we look at the GINI index of Brazil, it can be said that income inequality started to decrease. Of course, the decline of inflation has an important effect on this. Table 15 basically shows the GINI coefficient of Brazil, which is based on individual income, between 1993 and 2003. During Cardoso's period between 1995 and 2002, it decreased from 0.602 to 0.594.

Table 15: GINI index, 1993-2003

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
GINI index	0.608	....	0.602	0.605	0.605	0.603	0.597	....	0.601	0.594	0.587

Source: World Development Indicators

Income inequality can be also understood by comparing incomes of poor and rich. In this point, it is essential to focus on income shares by deciles. According to the World Bank Indicators (n.d.), the richest 20% of the Brazilian population got 64.3% of the total income in 1995; whereas, only 2.1% of income went to the poorest 20%. On the other hand, at the end of the Cardoso's period, income share of the rich began to decrease and poor's income share started to increase. According to the data of the World Bank Indicators (n.d.), 2.3% of total income went to the poorest 20% and 20% of the richest got 62.4% of total income in 2003.

Although Cardoso and his administration did a good job both in economy and social area, his second term ended with a big disappointment. At the end of the Cardoso's period, there was weak economic growth. In addition, there was a financial crisis. Brazil's debt also increased and it became a big problem for Brazil. Although the International Monetary Fund (IMF) gave \$30 billion loan to Brazil, its debt doubled

and reached 56% of GDP (The Economist, 22nd February 2003a). Unemployment also became an important problem. Furthermore, although Cardoso really tried to solve crime and corruption problems, he could not prevent these, and corruption continued to be a huge problem for Brazilians.

5.2 Period of Luiz Inacio Lula Da Silva (1 January 2003 – 1 January 2011)

In 2002, there was a general election in Brazil, but this time, Cardoso was not a candidate. He was going to support Serra in the elections. And his strongest opponent was Lula Inacio Lula da Silva from the PT. In the first round, although Lula got more votes, he did not exceed 50%, so a second round was made. As a consequence of the second round, Lula was elected by taking a majority of the votes (Bohn, 2011). And he became the 35th president of Brazil in 2003. Although Lula was a candidate 3 times in 1989, 1994 and 1998, he had lost the elections. However, in December 2002, when he was 57, he was elected as the first working class president of Brazil (Bohn, 2011). It is true to say that expectations from Lula were different, because he came from the biggest leftist party. Actually, Brazilians saw him as a leader to change everything. During the election campaign, Lula promised for *Mudança* which means “change” in Portuguese. The expectations were that Lula could end “the economy’s habit of crashing like a virus-infested computer, lift millions of Brazilians out of squalor and give his country international heft to match its vast population and territory” (The Economist, 3rd January 2004: 33).

The PT was also effective in the high expectation of Brazilians. Actually, it was a centre left party, so Brazilians expected that Lula would solve traditional poverty

and inequality problems by providing more social policies. At the same time, expectations were also based on the socialist discourse of the PT. The previous president of Brazil, Cardoso, stated that the PT is much close to the unions and they have a different idea of socialism not traditional socialism or communism. But they argue that civil society can change the state. On the other hand, although the PSDB began as a centre-left party, with Cardoso, it has moved to the centre. Cardoso described the PSDB as social democratic rather than socialist. In addition, he said that the PSDB is always close to middle class instead of the unions (The Economist, 19th January 2012). From this point, it would be true to say that there was a certain difference between the PT and PSDB. In fact, this difference was expected to be reflected on policies.

Furthermore, Lula had a different background compared to Cardoso. “Lula was born in the dirt-poor north-eastern backlands... from an illiterate farm worker, who beat them and sent them to work instead of to school” (The Economist, 2nd November 2002: 57). Lula started to work as a shoe-shine boy. Then, he became a mechanic. At the end of the 1970s, he became a leader of the Sao Paulo Car Workers’ Union. In contrast to Cardoso, Lula had a working class background. Moreover, as mentioned, Cardoso was close to Tony Blair and Bill Clinton, whereas, Lula was close to Fidel Castro in Cuba and Hugo Chavez in Venezuela who were seen as great outcasts (The Economist, 3rd January 2002). There was also an expectation that this relationship could be one of the reasons that Lula’s policies would be different than Cardoso’s policies.

All those were seen that Lula was going to choose new economic policies and to be on the left. In fact, the market in Brazil panicked, because with Lula’s arrival

everything could change and they could lose their power. In that sense, the economy of Brazil was affected badly. For example, the value of Brazil's currency decreased and inflation increased before the elections of 2002 (The Economist, 4th March 2006). As a result of this, Lula prepared a declaration – “Letter to the Brazilians” – and stated that he would continue to use the same economic policies as the previous government; in addition, he would continue to support international financial flows (Savran, 2006). At the same time, Lula guaranteed that he was going to appoint ministers who could really carry this mission. In this way, he wanted to give a guarantee to the markets to prevent panic (The Economist, 4th January 2003). As a consequence, the economy was stabilized.

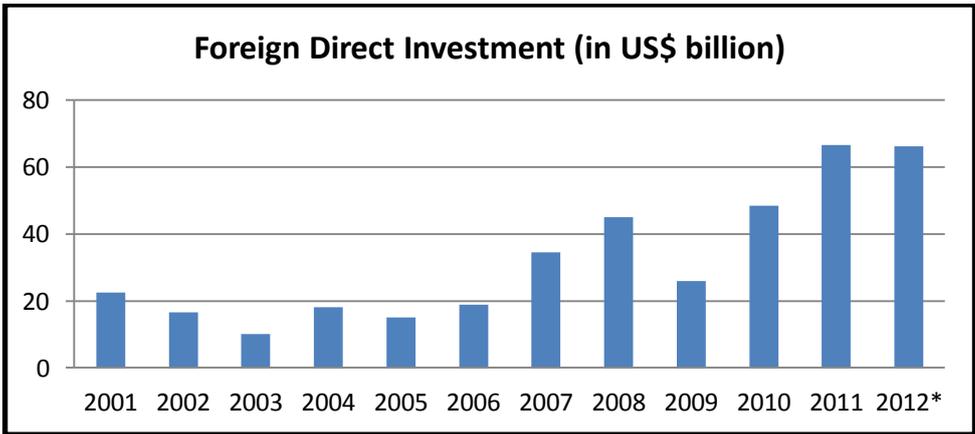
5.2.1 Economic policies of Lula

When Lula came to power in 2003, he mainly focused on social problems such as poverty and inequality and he tried to increase minimum wages as he promised during the election campaign. At the same time, he continued with the open economy. Although the PT traditionally supported protectionism, Lula did not do this (The Economist, 4th January 2003). The PT stated that the economic model of Brazil must change because neoliberal policies are not good for the poor and they increase inequality within the population. By contrast, Lula chose an open market economy model, just as the previous government had done. Basically, he said that they want free trade, but with reciprocity (The Economist, 1st February 2003). Moreover, Lula built a government with capitalist ministers. Generally, ministers during his period were not against free trade. Furthermore, Lula created good relations with the IMF

and accepted IMF policies which are based on neoliberalism. It can be also said that Lula continued to support international financial flows (Savran, 2006).

During the election campaign, Lula promised big changes for Brazil such as bringing fast economic growth. For this reason, he tried to expand Brazilian exports to South Africa, India and China⁶. As a result, the increase of exports obviously put Brazil to an advantaged position. In addition, Lula carried out land reforms and gave agricultural credits for small landholders. At the same time, he continued to support industrialization and privatization policies, as Cardoso did. Besides, it can be said that during Lula's administration, foreign direct investment (FDI) to Brazil increased. Of course, this also benefited the Brazilian economy. Figure 11 shows FDI in Brazil between 2001 and 2012. Although there were fluctuations in a decade, during Lula's term, it rose from \$10.1billion to \$48.7billion between 2003 and 2010.

Figure 11: Foreign direct investment (At the end of each period, in US\$ billion), 2001-2012



Source: Central Bank of Brazil
* 12-month cumulative up to July 2012.

It is true to say that the increase of FDI was related with Brazil's stable position. For instance, Lula certainly fought against corruption. Actually, he changed

⁶ Main export products of Brazil are coffee, autos, ironore, trasport equipment, soybeans and footwear (World Factbook, 2012).

a concession law to be able to prevent corruption. For example, until those years, no federal roads were made by private investors, but with the new law, projects started to be given to private companies (The Economist, 4th March 2006). Moreover, price stability continued during Lula’s period. At the same time, inflation continued to decrease as in Cardoso’s period. Table 16 indicates inflation in Brazil between 2001 and 2010. It is clear to see that inflation decreased from 14.7% to 5% during Lula’s period between 2003 and 2010 although the main decrease in inflation was seen in the Cardoso’s period as mentioned. All these increased confidence in the Brazilian economy.

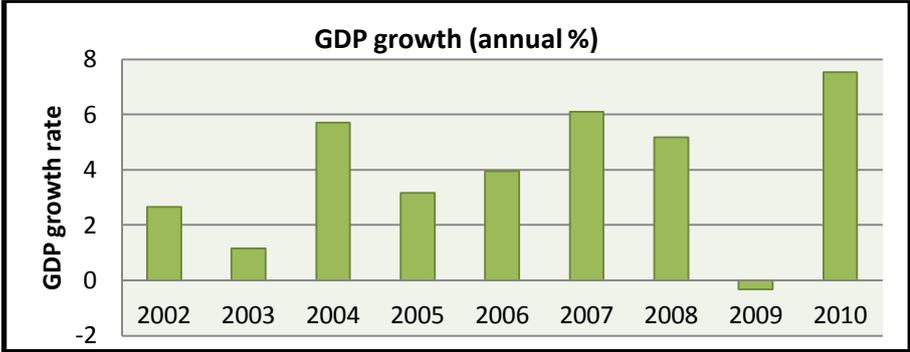
Table 16: Inflation, consumer prices (annual %), 2001-2010

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Inflation rate	6,84	8,45	14,72	6,60	6,87	4,18	3,64	5,66	4,89	5,04

Source: World Development Indicators

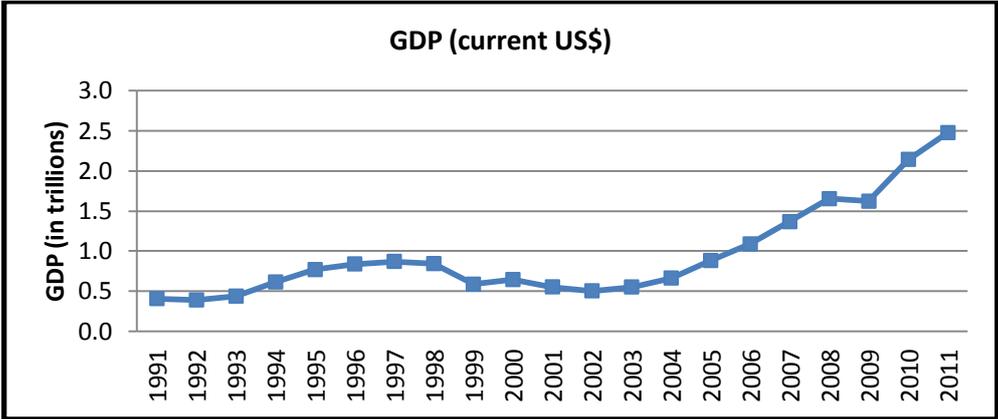
As a result of Lula’s economic policies and all these positive developments, Brazil had a positive and generally high economic growth. In Figure 12, GDP growth of Brazil between 2002 and 2010 can be seen. Obviously, with Lula, except in 2009, Brazil began to have a positive growth rate; in addition, generally, there was fast growth. By looking at GDP, it can be understood more clearly. Figure 13 shows GDP (current US\$, in trillions) of Brazil between 1991 and 2011. During the Cardoso’s period between 1995 and 2002 GDP of Brazil decreased a little bit, but with Lula, GDP grew dramatically from 0.5 trillion to nearly 2.2 trillion in between 2003 and 2010.

Figure 12: GDP growth (annual %), 2002-2010



Source: World Development Indicators

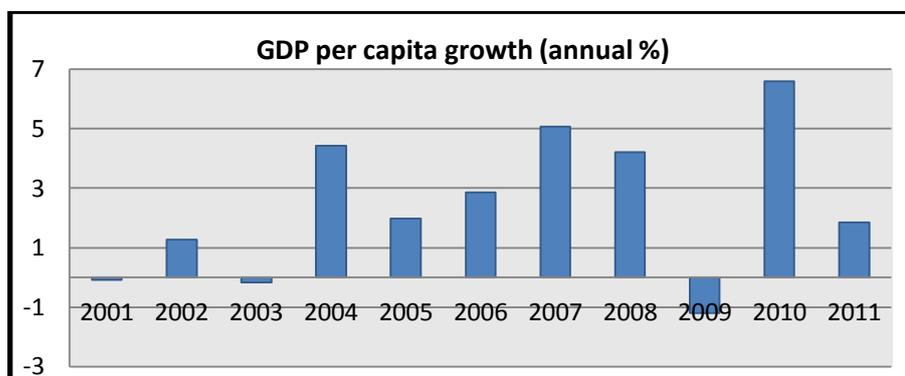
Figure 13: GDP (current US\$) (in trillions), 1991-2011



Source: World Development Indicators

Brazilians also benefited from this high growth because per capita growth was also high in the same period. Figure 14 shows GDP per capita growth in Brazil from 2001 to 2011. Under Lula’s presidency between 2003 and 2010, except in 2009, per capita growth was positive and high.

Figure 14: GDP per capita growth (annual %), 2001-2011



Source: World Development Indicators

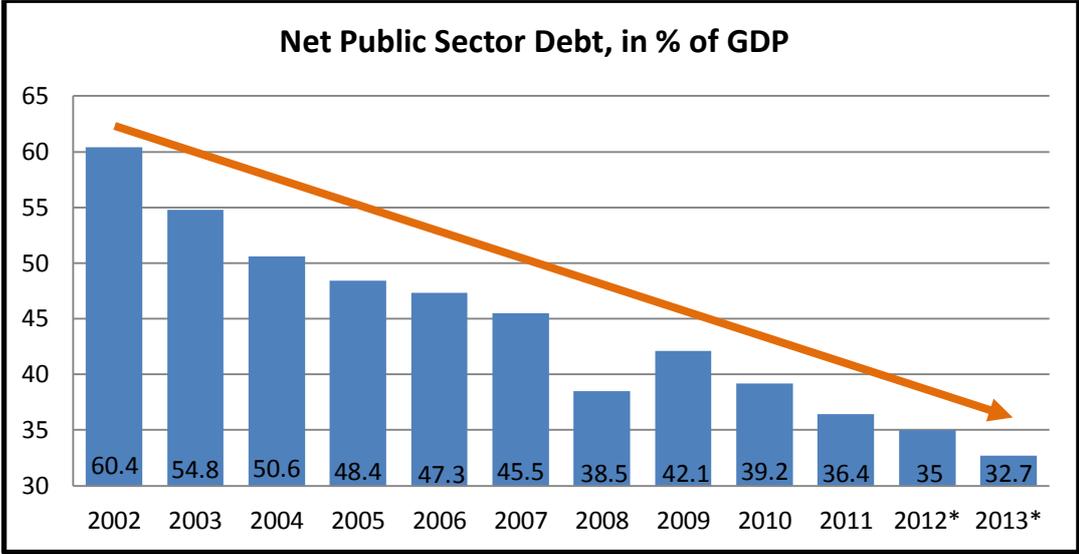
Actually, 2009 was an important year because in 2008, there was an international economic crisis which is also known as the *global financial crisis*. It affected countries' economy very negatively. It is true to say that it was the worst crisis since the 1930s Great Depression. Until 2010, its bad effects can be seen on countries. However, Brazil was not affected from this crisis so much. The editor of the Financial Times, Lionel Barber, and Brazil correspondent, Jonathan Wheatley, made an interview with Lula in 2009 in London to ask its reason (Financial Times, 8th November 2009). Lula explained this with the public investments on infrastructure. He thought that investment on infrastructure is a prior condition of success. In addition, Lula stated that Brazil started to make many investments before the crisis in contrast, many countries began those investments after the crisis. In 2007, Lula initiated an investment program which was the Growth Acceleration Program (*Programa de Aceleração do Crescimento* – PAC) and it became the main infrastructure program.

The PAC⁷ was prepared in 2006 before the presidential election, but Lula implemented it after the election. Because during the election campaign, it could create confusion and Brazilians could be affected negatively (Financial Times, 8th November, 2009). The program included both economic policies and investment policies. According to Lula, the PAC was the main reason why Brazil was not terribly affected by the crisis. In addition, Brazil created huge companies which can compete across the world. These companies have power to compete with the world's leading companies in energy, aircraft, processed food and mining. These companies also gave power to Brazil. At the same time, many economists have argued that an expanding middle class increased the domestic market which can be also seen as reasons to overcome the 2008 crisis (Financial Times, 8th November, 2009).

Lula also strongly wanted to decrease public debt. It was one of the main problems at the end of the Cardoso period. It can be said that Lula also became successful in this issue. Figure 15 shows the public debt of Brazil from 2002 to 2013. It is clearly seen that during Lula's period public debt decreased steadily from 54.8% to 39.2% of GDP between 2003 and 2010.

⁷ Dilma Vana Rousseff who is the president of Brazil since 2011 continues to use PAC with under the new name – PAC-2 (Portal Brasil, 2012).

Figure 15: Public Debt (% of GDP), 2002-2013



Source: Central Bank of Brazil and Ministry of Finance
 * Estimated by Ministry of Finance, based on market parameters and the full accomplishment of the primary result target.

5.2.2 Social policies of Lula

During the election campaign in 2002, Lula gave important promises such as ending hunger and homelessness, giving better money for state workers and providing more education and health care (The Economist, 2nd November 2002). Moreover, Lula increased the expectations for equality and rights. A Canadian trade unionist Thomas De Castro stated that Lula “provides hope not only to his own people but to struggling people all over the world” (The Economist, 1st February 2003: 47). This means that Lula inspired many people, especially the poor in the world, to get their rights, equity and equality. However, when Lula won the presidency, there were many economic problems. Under these conditions, many people argued that Brazil should cut its public spending to be able to recover from this difficult period. By contrast, some others believed that if spending was on

reducing poverty and improving health, education, housing and infrastructure, then that spending could not be seen as a loss. Actually, Lula chose the second way and by taking Cardoso's social policies as a base, he tried to improve and expand social policies to solve traditional problems of Brazil.

Lula during his presidency mainly focused on issues which were related with the poor and the working class. He prepared social policies and he tried to increase minimum wages to reduce income inequality. For this reason, during his presidency, he tried to find funds or support for his policies.

One of Lula's ideas—seeking private donations to supplement government spending on anti-poverty projects—has already been put into action in *Araioses*, where the Brazilian offshoots of two of America's industrial giants, GM and Praxair, are sponsoring government welfare schemes to overcome illiteracy and youth delinquency respectively (The Economist, 22nd February 2003b: 9).

Lula also invited more companies such as Ford and Unilever to support social programs. Moreover, he took help from the World Bank to expand and improve his social programs. This help included both advice and a loan of about \$572 million (The Economist, 17th September 2005). The IMF and the Inter-American Development Bank also supported Lula's social policies in general. Furthermore, rich Brazilians also gave financial support. Federal spending on education was mainly taken from the rich people and that money mainly went to free public universities (The Economist, 4th September 2004).

Lula and his administration gave equitable chance to all Brazilians to benefit from social programs (Bohn, 2011). For instance, men and women could equally benefit from those programs. Moreover, young Brazilians had more chance

compared to older ones. Because young ones tried to shape their lives and they had more years in front of them; whereas, old ones had already shaped their lives. Furthermore, regions are not important for social programs. People from any region had the same chance with others. This means that social programs were not created only for rural areas. Urban places could also benefit from these programs because these programs aimed to create more equal order. It can be also said that having low education level gave more chance to benefit from social programs, because the aim of some of these programs was to reduce illiteracy.

During the election campaign, Lula used *Fome Zero* (Zero Hunger, in English) as a slogan. With this project, he promised that all Brazilians were going to eat three times a day. When Lula became the president in January 2003, *Fome Zero* started to be used as an official program. With this program, Lula aimed to reach 44 million Brazilians who lived under the official poverty line and provide them food supply and cash aid (Hall, 2006). Basically, he stated that “if by the end of my term, all Brazilians are able to eat breakfast, lunch and dinner, I will have fulfilled my life’s mission” (The Economist, 22nd February 2003b: 9). In the first year of this program, there was no major political support for this. Actually, there was not a specific and good plan to show what was going to be done with *Fome Zero*. Although Lula hoped more things from *Fome Zero*, this program became ineffective and problems began (The Economist, 3rd January 2004). In the selection of poor families, they made mistakes, so many poor families stayed out of this program. In addition, they did not update information about the poor families. This means that some payments went to wrong places.

In addition to Fome Zero, Lula also created *Cartao Alimentação* (Food Card, in English) in March 2003 as a food card system. With this program, he aimed to provide basic food to poor households (Almeida, 2005). *Cartao Alimentação* was a part of Fome Zero. This program was prepared especially for the poor in semi-arid Northeastern of Brazil. It provided “families earning up to half the minimum wage a monthly cash supplement of R\$50 for food purchases” (Hall, 2006: 698).

It can be right to say that social programs of Lula were not so effective. For this reason, he decided to unify them. So, he put three previous existing programs – Bolsa Escola, Bolsa Alimentação and Auxilio Gas – and his program – *Cartao Alimentação* – under one new social program. In other words, four CCTs were combined under one which was called *Bolsa Familia* (Family Allowance, in English). This means that “educational stipends to boost school attendance, maternal nutrition, food supplements and a domestic gas subsidy” began to be controlled under one program (Hall, 2006: 689).

In general, with this unification, Lula argued that programs became more effective to fight against poverty and inequality. Furthermore, “the interventions of the federal, state and municipal governments were unified via a single program of direct income transference” (Almeida, 2005: 7). Although programs were collected under one program called *Bolsa Familia*, they were administered separately. So *Bolsa Escola* was given to the Ministry of Education, *Bolsa Alimentação* to the Ministry to Health, *Auxilio Gas* to the Ministry of Mines and Energy and *Cartao Alimentação* to Fome Zero (Hall, 2006). With this integration, Lula aimed to minimize costs, improve targeting efficiency and standardize procedure. Each program had its own bureaucratic structure and information collection technique. Actually, *Bolsa Familia*

can be seen as “a widely distributed and applauded mass family stipend program” (Fenwick, 2009: 103).

Shortly, Bolsa Familia can be seen as an anti-poverty scheme. Specifically, families who are in a poor situation (earning monthly between R\$60 and R\$120) and in extreme poverty (earning monthly less than R\$60) could benefit from Bolsa Familia (Rocha, 2009). According to their poverty level and the number of children, payments were given to them. Data on families whether they were eligible or not were collected by local governments. However, the federal government made the payments. Actually, beneficiaries could get maximum R\$95 monthly and they could get their payments through an electronic card (The Economist, 7th February 2008). On the other hand, if the conditions of beneficiaries improved, government put an end to payments. Brazilians were certainly pleased with Bolsa Familia, they saw this program as a life saver. According to Lula, this program could be seen as the most important program in the world. In this point, it is important to state that as a result of the success of this program, many countries in the world have tried to find similar schemes. In addition, some countries wanted help from Brazil. For example, in February 2008, Brazilian officials went to Cairo to meet with Egyptian officials to find a similar scheme for Egypt. Moreover, Kathy Lindert who was the World Bank’s officer in Brazil in 2008 also worked on a similar scheme for Eastern Europe (The Economist, 7th February 2008).

Like Cardoso, Lula argued that one of the most important reasons of inequality was education. The education level was very low in Brazil. For example, according research by the World Bank in 2003, only 33% of Brazilian teenagers went to secondary school. The other example is that “two thirds of Brazilian workers

(including himself – Lula) never completed their basic education” (The Economist, 22nd February 2003d: 13). So under Bolsa Familia, he supported school enrollment. For education, at the beginning of the 2000s, government paid R\$15 per child and maximum R\$45 per household under Bolsa Familia (Bourguignon, Ferreira and Leite, 2003). Actually, payments were given to the mother because they argued that mother could use money in the right way. So with this program, Lula aimed to provide better education to poor families’ children. There is also an argument that Bolsa Familia could break dependency by giving children an opportunity for better education than their families. By this way, he said that “my dream is that one day we won’t need Bolsa Familia anymore because it will have generated employment and aided income distribution” (The Economist, 4th March 2006: 58).

Lula was also aware that quality of education was low in Brazil. To resolve this problem, he transformed Cardoso’s program Fundef to Fundeb (Education Maintenance and Development Fund; *Fundo de Manutenção e Desenvolvimento do Educação Basica*, in Portuguese). Fundef was used only for primary school. Lula extended it and created Fundeb which included both secondary school and pre-school education (Almeida, 2005). In this way, all students in Brazil could benefit from funds of basic education. Moreover, Lula believed that to be able to benefit from education, it was also essential to educate teachers. For example, East European countries have impressive training programs for teachers. In contrast, in rural areas of Brazil, many teachers entered the class without taking any training. For this reason, he provided training programs for the teachers (The Economist, 22nd February 2003d).

Like Cardoso, Lula also tried to provide better opportunities for farmers. PRONAF, which was created by Cardoso in 1996, was criticized whether it had enough capacity to promote poor farmers or not. From these critiques, Lula created the National Food Procurement Program (*Programa de Aquisição de Alimentos – PAA*) in 2003 (Rocha, 2009). But he did not eliminate PRONAF. PAA was administered by the Ministry of Social Development and Fight against Hunger (MDS). Both PRONAF and PAA actively worked until 2006. However, in 2006, Lula joined PAA into PRONAF and it started to be administered by the MDS and MDA. In addition, the Ministry of Agriculture, the Ministry of Planning and the Ministry of Finance took a place in its administration (Rocha, 2009). In this way, Lula thought that farmers could get better help.

Furthermore, Lula continued to use Cardoso's health program which was PSF, but he increased its importance. It can be said that in 2004, 60% of population benefited from it; whereas, in 1999, only 14% of population had benefited from PSF.

The PSF is a decentralized approach to providing core primary care functions, including first-contact access for each new health need, comprehensive and person-focused care over the life course, coordination of care between different providers and types of health services, and family and community-oriented health promotion activities (Macinko and et. al., 2007: 293).

Actually, the PSF includes several teams. Each PSF team is dispatched to one geographical area. They get responsibility of nearly 3,500 people. Actually, services are free, so this attracts people to get benefit from these services. Moreover, each PSF team includes both clinic and community health workers who go to houses and give services there.

During his presidency, Cardoso controlled social spending, whether they reached the poor or not, through two ways. The first way was related with exchange. For instance, the government gave payments directly to families, but they had to keep their children at school. The second way was related with technology. Receivers took their payments through an electronic card, so by this way, government could identify the needy because cards included information about families. Lula also used these two ways in his term because he argued that by this way, corruption and political favoritism could be prevented (The Economist, 16th August 2003). However, Lula put some new rules for beneficiaries of the social programs. For example, an earlier program, Bolsa Escola, gave families R\$15 per child to keep up to three children in school, but with Bolsa Familia, families have to keep all their children at school to be able to get the payments. (The Economist, 17th September 2005). In addition, under Lula, in 2005, government checked beneficiaries of Bolsa Familia by investigating data on them seriously for the first time. As a result, Rosani Cunha, who was a manager of Bolsa Familia in 2005, stated that 50,000 Brazilians lost their benefits (The Economist, 17th September 2005). This shows that Lula did not want to spend public budget unnecessarily. He was more serious than Cardoso to give help to Brazilians who really needed it.

Lula not only prepared social policies but also created ministries to be able to solve inequality. The Ministry of Food Security and the Ministry of Social Assistance were created for this reason (The Economist, 25th October 2003). Lula also created the Ministry of Social Development in 2004 to work on social development and social assistance (Fenwick, 2009). Actually, in this way, he tried to extend CCTs and their effects. In addition, Lula gave a role to the Health Ministry to get a part in poor areas.

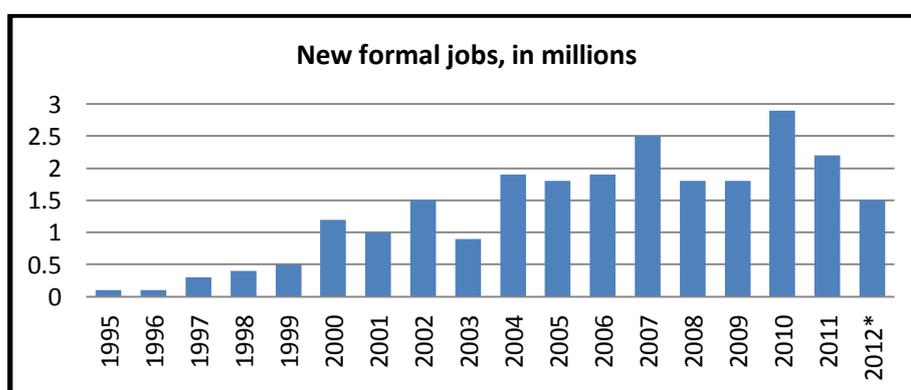
Basically, doctors started to be sent to poor regions for infants to pay for daily milk and dietary.

Unemployment was also a big problem in Brazil. For many years, Brazil's officials showed the unemployment rate with small numbers. In other words, according to Brazilian officials, the unemployment rate was not so huge compared to its neighboring countries and some other rich countries. Of course, this was not calculated according to the international standards. In 2002, Brazil started to calculate its unemployment rate in similar method with the international standards. As a result of this new method, the unemployment rate in Brazil became 10.5%, which was seen as double compared to the past (The Economist, 22nd February 2003c). This means that unemployment was a big problem. For this reason, like Cardoso, Lula also focused on land reform. He tried to give land to the landless. During his presidency, 614,000 Brazilians took plots with land reform (Mercopress, 12th May 2011). Furthermore, Lula tried to provide public works. For example, the port and industrial complex of Suape were expanded to handle big ships was created (The Economist, 19th May 2011). The federal integration minister Fernando Bezerra Coelho suggested that the north-east region can be seen as a huge ship building site. Actually, with such an investment, government aimed to create income for unemployed Brazilians.

According to research, for Brazilians, the lack of decently paid employment was also a really big problem at the end of the Cardoso period. During the election campaign, Lula also focused on this issue. Although Cardoso tried to do something in terms of social programs, improvements were not seen easily. In 2003, the World Bank's director for Brazil, Vinod Thomas, stated that the Brazilian government tried to

provide policies and opportunities to create paid employment during the 1990s. They were better than Mexico, India and China, but they only increased their grade from C to B (The Economist, 22nd February 2003b: 9). From this viewpoint, Lula focused on this issue and created opportunities to increase formal jobs. Figure 16 shows creation of formal jobs in Brazil between 1995 and 2012. It is clear to see that, although Cardoso tried to provide new formal jobs, Lula became more successful. In that during his period from 2003 to 2010, many new formal jobs were created. Cardoso mainly focused on economic stabilization, so high increase in the creation of formal jobs was not expected. However, by stabilizing the economy, he made the greatest contribution to employment.

Figure 16: Creation of formal jobs, in millions, 1995-2012



Source: Ministry of Employment
 * 12-month accumulated up to July 2012.

Lula went further and created a fund also for housing. In 2009, he created a program for poor and middle classes to be able to buy a house (The Economist, 16th February 2013). This program was *Minha Casa Minha Vida* (My house my life – MCMV). Basically, MCMV provided funds for housing. Actually, this fund was a part of PAC which was the main infrastructure program during Lula’s period. The federal budget and workers’ compensation were the sources of MCMV fund. Caixa

Economica Federal, which is a state-owned bank, was used as a federal budget. With MCMV, homebuilders' interests have turned to the middle class. At the beginning, MCMV was seen as a lifeline, but it worked slowly. However, until the end of the 2012, one million families settled in their new homes (The Economist, 16th February 2013). Still today, the Brazilian government works on how to build homes for the truly poor.

Furthermore, Lula's administration was aware that only social assistance programs were not enough to fight against poverty and inequality. In some cases, police and church were also needed to give support. Brazil's Social Development Minister, Romula Paes de Sousa, stated that there were two types of poverty which are 'old' poverty and 'new' poverty (The Economist, 29th July 2010). Old poverty means lack of food and basic services; whereas, new poverty includes drug addiction, violence, family breakdown and environmental degradation. Brazil had both of them. So for the new poverty, Bolsa Familia could not fight alone. Sousa suggested that the efforts of the police, new shops and commerce and Pentecostal churches were also needed (The Economist, 29th July 2010).

Under Lula and his administration, many developments can be seen both in economic and social terms. It is certainly true to indicate that Lula gave so much importance to Bolsa Familia. As a result, this program started to work well. So the success of Bolsa Familia brought reelection of Lula to the presidency in December 2006. Brazilians really paid attention to this program. Nearly a quarter of Brazil's population benefited from Bolsa Familia until 2008. In the same year, in Brazil's poorest region in the North-eastern state – Alagoas – over half of the families got help from this program (The Economist, 7th February 2008). For example, Ocara is a

state in the northeastern region of Brazil. As the other northeastern cities, Ocara also can be seen as a poor city. With Bolsa Familia, conditions in that city started to improve because many people have benefited from this program (The Economist, 17th September 2005). According to research, nowadays, nearly 700,000 poorer families have benefit from Bolsa Familia (The Economist, 13th October 2012).

To explain the effect of Bolsa Familia on education in detail, it is necessary to look at literacy rates in Brazil. Table 17 shows literacy rates in Brazil between 2003 and 2010. It can be seen that during this process, it increased steadily.⁸

Table 17: Literacy rate, youth total (% of people ages 15-24), 2003-2010

Year	2003	2004	2005	2006	2007	2008	2009	2010
Literacy rate	96,84	.....	97,58	97,80	97,84	98,07	.....

Source: World Development Indicators

Furthermore, since 1992, the rate of rural children both in primary education and in secondary education has increased. By considering data from 2008, especially in primary education, it can be seen that the rate of rural children at school caught up with the rate of urban children at school (The Economist, 29th July 2010). Moreover, as a result of reforms, now newly educated workers have better expectations and conditions than their parents. In addition, there are better opportunities for less skilled workers (The Economist, 17th January 2012). Government also tried to focus on education more by increasing its spending on it. Table 18 shows public spending on education in Brazil between 2002 and 2011. It is clear to see that spending on education during Lula's period increased gradually from

⁸ In this point, it is also essential to state that Brazil did not share its statistics about education for all years.

4.01% to 5.62% between 2004 and 2009. Actually, all these helped to reduce inequality in Brazil.

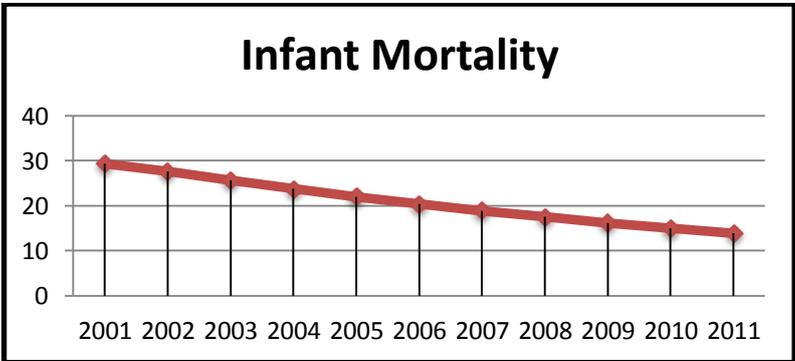
Table 18: Public spending on education, total (% of GDP), 2002-2011

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public spending rate on education	3.80	....	4.01	4.53	4.95	5.08	5.40	5.62	....	....

Source: World Development Indicators

As noted previously, Lula gave further efficiency to Brazilians’ health policies and he expanded and extended the PSF. As a result of this, it can be seen that the infant mortality rate was reduced during his presidency. In Figure 17, infant mortality in Brazil between 2001 and 2011 can be seen. It is clear that during Lula’s period, it decreased dramatically.

Figure 17: Infant mortality rate (per 1000 live births), 2001-2011



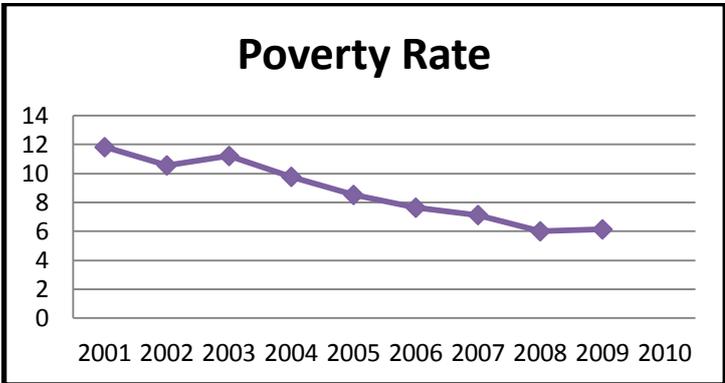
Source: World Development Indicators

Not only Bolsa Familia fought against inequality. Lula by preparing other programs tried to reduce inequality in Brazil. Actually, with land reforms, he tried to provide land to the landless. In this way, he provided income to them. Moreover, with PRONAF and PAA, Lula tried to help farmers to improve their situations and reduce income inequality. At the same time, some kind of help, such as assistance service, crops and insurance were given to Brazilians during Lula’s presidency. As a result,

food production increased in Brazil. In the Figure 10, it can be seen that the food production index increased gradually from 94.2 to 123.9 between 2003 and 2010.

As a result of Lula’s social policies, the poverty rate also started to decline. In Figure 18, the poverty rate can be seen in Brazil between 2001 and 2010. Actually, during Lula’s period, it decreased from 11% to 6%.

Figure 18: Poverty headcount ratio at \$1.25 a day (PPP) (% of population), 2001-2010



Source: World Development Indicators

In general, all these social policies in Brazil were made to decrease poverty and reduce inequality. According to FGV, inequality started to decline steadily with Lula and it became the lowest level compared with the previous 30 years (The Economist, 4th March 2006). Specifically, Table 19 shows GINI coefficient in Brazil between 2001 and 2011. From this table, it can be seen that income inequality continued to fall during Lula’s period. Actually, it decreased from 0.587 to 0.546 between 2003 and 2009.

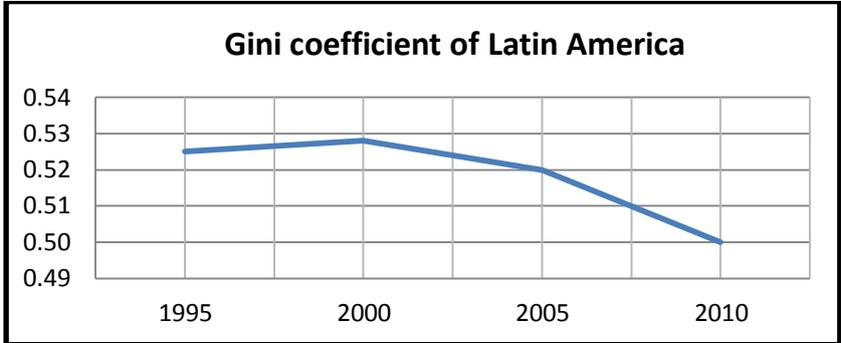
Table 19: GINI coefficient, 2001-2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GINI	0.601	0.594	0.587	0.576	0.574	0.567	0.558	0.550	0.546	....	....

Source: World Development Indicators

It can be stated that CCTs had important effect on the decrease of inequality. As mentioned before, CCTs were used not only by Brazil but also by many Latin American countries. As a result, in 13 of 17 Latin American countries, inequality began to decrease (Lusting, Lopez-Calva and Ortiz-Juarez, 2012). Figure 19 shows income inequality in Latin America between 1995 and 2010. Basically, it decreased gradually from 0.525 to 0.50 in this period.

Figure 19: Latin America’s income inequality, 1995-2010



Source: CEDLAS and the World Bank

Furthermore, we can understand whether income inequality has decreased or not by comparing incomes of the poor and rich. Incomes of the poor should necessarily increase more than the rich’s income in order for inequality to decrease. In fact, according to research, between 2001 and 2009, income per capita of the poorest 10% of the population grew by 6.79% per year while the income of the wealthiest 10% grew at 1.49% per year (Portal Brasil, 2012). To be able to secure the decrease of income inequality, this rate has to continue for many years, so there is no certainty. But it is the first time that this kind of rate continued during a decade. Moreover, according to the World Bank Indicators (n.d.), in 2001, 47.7% of the total income went to the richest 10% of the population and only 0.5% went to the poorest 10%. However, these numbers changed in nine years. In 2009, the poorest 10% got

0.8% of total income and the richest 10% got 42.9%. So as a result of these statistics, it can be said that income inequality began to decline in Brazil although it is still high.

5.3 Income inequality in Brazil with Cardoso and Lula

It is true to state that by looking at the GINI coefficient which is based on individual income during Cardoso and Lula's period, we reached the conclusion that income inequality began to decrease in Brazil. According to the World Bank Indicators (n.d.), between 1995 and 2009, it declined from 0.608 to 0.546. In addition, in this period, income share of the poor and rich also showed that inequality started to decrease. As mentioned, the increase of income of the poor increased; whereas, the increase of income of the rich decreased. The following table shows GINI coefficient in Brazil for the distribution among individuals of different household income variables, including and excluding zero income between 1993 and 2009. With including zero income, inequality become higher, but in many cases "the results on trends remain unchanged" (Gasparini, Cruces and Tornarolli, 2009: 161). World Development Indicators excludes zero income when they investigate GINI index. Throughout the paper, I used data from them, so with the Table 20, I want to give further information. From this table, it is clear to see that when Cardoso came to power, the GINI coefficient without zero income was 0.592 and with zero income was 0.602. However, at the end of his period in 2003, GINI coefficient became 0.576 without zero income and 0.588 with zero income included. On the other hand, during

Lula’s period, it decreased rapidly and in 2009, it became 0.537 without zero incomes and 0.547 with zero income included.

Table 20: GINI coefficient for the distribution among individuals of different household income variables, including and excluding zero income, 1993-2009

Years	Per capita income	
	Without zeros	With zeros
1993	0.599	0.608
1994	.....	.....
1995	0.592	0.602
1996	0.593	0.606
1997	0.593	0.605
1998	0.592	0.604
1999	0.586	0.598
2001	0.588	0.601
2002	0.583	0.594
2003	0.576	0.588
2004	0.566	0.576
2005	0.564	0.574
2006	0.559	0.568
2007	0.548	0.559
2008	0.542	0.551
2009	0.537	0.547

Source: SEDLAC (CEDLAS and the World Bank)

There was also a huge gap between rural and urban areas in terms of income inequality. Table 21 shows per capita income in Brazil by deciles, in local currency units in urban places and Table 22 shows the same thing for rural places. It is clear to see that the richest 10% of the urban population got more income than the richest 10% of the rural population in all years. However, the poorest 10% of rural population got more income than the poorest 10% of the urban population. Furthermore, from a first impression, it can be seen that both in urban and rural areas, the poorest 10% of population and the richest 10% increased their income. But the income gap between them started to decrease. In 1995, 10% of the richest urban population got ninety

times more than the poorest 10%; whereas, this difference decreased during the years and in 2009 the richest 10% began to get fifty eight times more than the poorest 10%. This obviously means that in urban places, the income of the poor increased faster than the rich. It can be also said the same thing for rural places. Basically, in 1995, 10% of the richest rural population got sixty four times more than the poorest 10%. In contrast, in 2009, they began to get forty two times more. It can be understood that in rural places, the gap between rich and poor in terms of income is lower than the urban places. Moreover, it is clear from these tables that the rate of mean urban income to rural incomes decreased from 2.6% to 1.9%. In sum, the income gap between rich and poor began to decrease both in urban and rural places. In addition, the gap between regions also began to decrease.

Table 21: Per capita income by deciles, in local currency units in urban places, 1995-2009

Urban	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	12	11	12	14	14	15	20	21	26	31	36	39	50	51
2	36	38	40	44	46	51	60	66	78	89	103	113	133	143
3	54	59	62	67	69	78	89	100	115	130	151	166	195	211
4	74	82	86	92	93	108	121	137	154	175	201	222	258	280
5	98	111	116	122	124	145	161	181	202	228	262	290	333	361
6	126	144	150	157	160	189	209	237	263	297	337	375	426	462
7	167	193	201	210	211	246	272	305	336	376	425	469	531	570
8	233	271	282	292	293	341	375	419	458	508	571	624	702	750
9	367	424	440	458	459	529	580	642	693	763	859	925	1,032	1,097
10	1,076	1,220	1,274	1,347	1,323	1,554	1,684	1,826	1,941	2,177	2,404	2,531	2,810	2,975
Mean	255	291	303	317	315	358	392	428	467	524	585	625	703	745

Source: SEDLAC (CEDLAS and the World Bank)

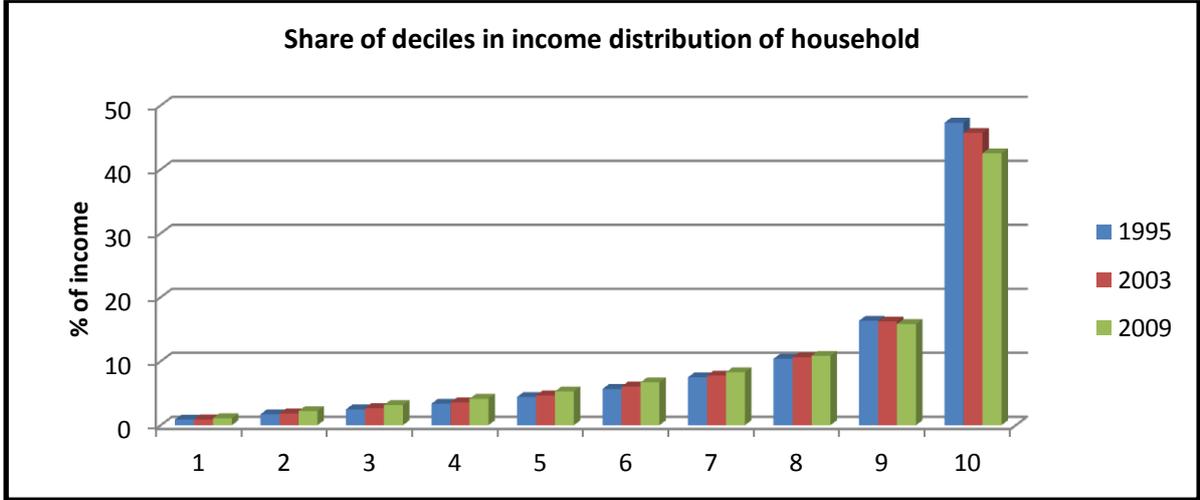
Table 22: Per capita income by deciles, in local currency units in rural places, 1995-2009

Rural	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	15	15	16	19	19	20	24	26	32	38	42	45	57	58
2	35	38	40	43	44	51	58	66	76	87	102	111	133	141
3	53	59	61	66	67	78	88	100	114	129	149	165	193	208
4	72	82	85	91	93	108	122	139	155	176	201	226	258	282
5	96	108	114	122	124	143	160	181	201	229	262	293	333	364
6	125	141	150	159	161	188	207	234	258	292	336	370	416	455
7	168	191	200	209	210	241	266	303	333	377	435	473	525	578
8	230	268	280	290	291	334	366	417	457	505	566	621	701	750
9	365	414	428	448	446	511	565	630	686	747	841	912	1,025	1,075
10	966	1,116	1,185	1,278	1,297	1,476	1,474	1,698	1,815	1,922	2,217	2,306	2,510	2,418
Mean	100	114	119	130	136	152	164	202	226	246	279	317	353	389

Source: SEDLAC (CEDLAS and the World Bank)

Up to this point, individuals were used to show income inequality. However, to be able to increase the effectiveness of the study, in addition to individuals, it is also essential to focus on households. For instance, by investigating distribution of household per capita income, it is clear to understand the gap between rich and poor. Figure 20 shows distribution of household per capita income in deciles in Brazil in 1995, 2003 and 2009. According to this figure, the richest 10% of the households got 47.3% of total income; by contrast, only 0.9% of total income went to the poorest 10% in 1995. At the end of Cardoso's term in the beginning of 2003, 45.7% of total income went to the richest 10% of household; whereas, 0.9% of income went to the poorest 10%. Although the share of income of 10% of the poorest household did not change, the share of income of the richest decreased 1.6%. It is clear that the income gap between rich and poor began to decrease.

Figure 20: Distribution of household per capita income in Brazil, in 1995, 2003 and 2009



Source: SEDLAC (CEDLAS and the World Bank)

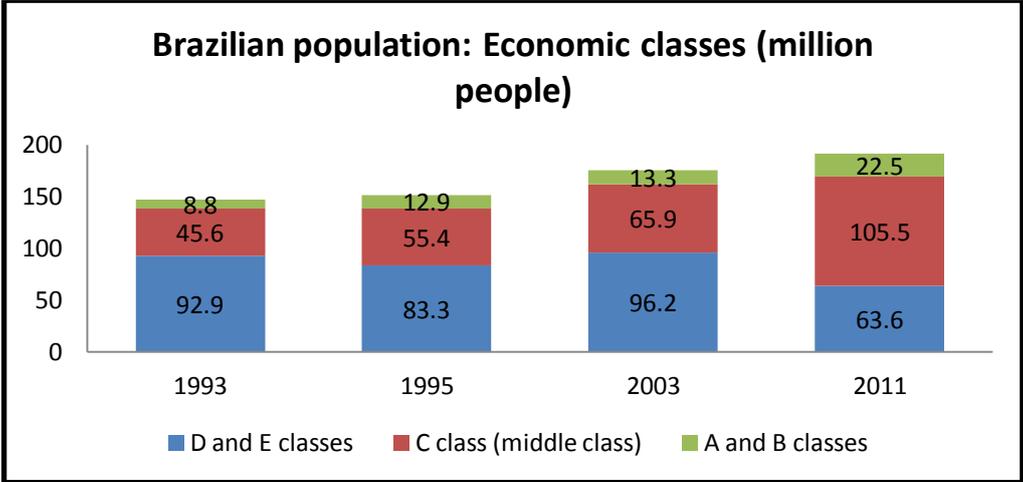
During Lula’s period, the income gap between the rich and poor continued to decrease. At the beginning of 2003, the richest 10% of households got 50.6% more income than the poorest 10%. On the other side, as it can be seen from the Figure 20, in 2009, 10% of the richest household got 42.5% of total income; in contrast, 1.1% of income went to the poorest 10%. This means that the richest 10% of households got 39.2% more of Brazil’s income than the poorest 10%. During the last fifteen years between 1995 and 2009, the difference between 10% of the poorest and the richest household declined from 53.8% to 39.2%. This certainly shows that income inequality has decreased in Brazil.

Income inequality can be also understood by looking at the middle class. Creation of a bigger middle class means reduction of inequality (Wiltse, 2010). At this point, it is essential to define middle class. In general, sociologists and political scientists explain middle class by looking at education, occupational status and ownership of assets. On the other hand, for economists, income is enough to define class. So, if we look at Brazilians, basically, many things have changed since the

1990s. It can be said that by the mid-1990s, income per person in Brazil has increased. In addition, the gap between the rich and poor has begun to decrease. At the same time, poverty has started to decrease. Furthermore, higher education has increased. As a result of these, middle class became bigger. According to a Brazilian economist, Marcelo Neri, nowadays, the middle class in Brazil is formed by half of the population. Actually, he divided the population into five groups and showed the middle class as class C. As a result of his research, with the improvements since 1990, the Brazilian middle class has increased from 35% to 50% (The Economist, 10th November 2012). In addition, according to Wiltse (2010), during Lula's period, the conditions of approximately 30 million poor people were improved and they became a part of the middle class.

Figure 21 shows economic classes of Brazil between 1993 and 2011. It is clear that while the lower class became smaller, the middle class got enlarged. Specifically, compared to 1993, in 2011, D and E classes decreased from 92.9 million to 63.6 million; by contrast, C class which is middle class increased from 45.6 million to 105.5 million. As a result, in 2011 middle class consisted of 55% of the population. The creation of a bigger middle class means that Brazil started to have a more stable democracy and became less prone to populism and less corruption because middle class societies have these characteristics (The Economist, 10th November 2012). Of course, conditional cash-transfer schemes and other social programs helped all these improvements.

Figure 21: Economic classes (million people) in the last two decades



Source: Fundação Getulio Vargas (FGV)

HDI is also important to see social development in countries. “Brazil’s HDI value for 2012 is 0.730 – in the high human development category – positioning the country at 85 out of 187 countries and territories” (UNDP Human Development Report, 2013: 2). Obviously, its value increased dramatically from 0.522 to 0.730 in thirty years between 1980 and 2012. If we compare Brazil with other countries such as China, India, Russian Federation and South Africa which have fast growing economies, we can reach the conclusion that Brazil is not in a bad position. Table 23 shows HDI value of Brazil, Russia, India, China and South Africa (BRICS) between 1980 and 2012. Clearly, Brazil has the highest second HDI value out of five in 2012 although it was in the third place in 1980. This directly shows that social policies have important effects on social development.

Table 23: HDI value of BRICS, 1980-2012

Countries	1980	1985	1990	1995	2000	2005	2010	2012
Russian Federation	.....	.....	0.730	.....	0.713	0.753	0.782	<i>0.788</i>
Brazil	0.522	.....	0.590	.....	0.669	0.699	0.726	<i>0.730</i>
China	0.407	.....	0.495	.....	0.590	0.637	0.689	<i>0.699</i>
South Africa	0.570	.....	0.621	.....	0.622	0.604	0.621	<i>0.629</i>
India	0.345	.....	0.410	.....	0.463	0.507	0.540	<i>0.554</i>

Source: International Human Development Indicators

To sum up, it is right to state that in the last two decades, economic growth in Brazil increased and the Brazilian economy became the 6th biggest economy in the world (Dünyanın ekonomik dengeleri değişiyor mu? 2011). Moreover, Brazil is on the way to achieve many of the United Nations Millennium Development Goals (Rocha, 2009). In fact, the socioeconomic policies of Cardoso and Lula had important effects on this. It can be said that until the mid-1990s, there were not certain and effective programs to fight against inequality and poverty. But with Cardoso and Lula, many influential programs were created. As a result of those policies, the literacy rate and income per person increased. Moreover, the rate of poverty decreased. Traditional inflation also decreased at a tremendous rate. And consequently, income inequality began to decrease in Brazil although it is still high. In this point, Cardoso argues that if we – Lula and I – could do what Chile did, maybe the process for improvements can be faster. Actually, in Chile, there were two opposing parties which were the Christian Democrats – conservative – and Socialists – left. They established a united force for their country (The Economist, 19th January 2012). Cardoso thought that if they created this collaboration, maybe Brazil would be in the further step to decrease income inequality.

6. FINDINGS AND CONCLUSION

In the light of all the above mentioned studies, it is clear to see that inequality in Brazil has decreased during the last two decades. Specifically, by looking at GINI coefficient, it can be said that income inequality decreased from 0.608 to 0.546. Kuznets explained the decrease of inequality with economic growth. I investigated Kuznets' theory and looked at whether the decrease in inequality in Brazil can be due to economic growth or not. It is true to say that during this process, the Brazilian economy grew substantially. Between 1995 and 2011, the GDP of Brazil rose dramatically from nearly 768 billion to 2 trillion. So does inequality in Brazil really decline with economic growth? I think, it is not possible to say "yes" as an answer. The Brazilian economy had high growth several times in history. For instance, at the end of the nineteenth century, the Brazilian economy grew highly with coffee production. Moreover, at the beginning of the republic years, with coffee production and the manufacturing sector, Brazil had high growth rates. Furthermore, with the introduction of ISI policies in the 1950s, the economy of Brazil again began to grow. But it grew highly at the end of the 1960s and beginning of the 1970s because ISI mainly began to be used in this period. Certainly, the industrial economy brought high economic growth to Brazil. However, all these growth spurs did not bring wealth to all the people and regions and inequality in Brazil continued to increase instead of decreasing. So it is true to state that economic growth is not necessarily enough to decrease inequality.

In contrast, during the period of Cardoso and Lula, with economic growth, inequality began to decline in Brazil because something was different. Basically, in

the last twenty years, especially both with Cardoso and Lula, the Brazilian state changed its socioeconomic policies and it is these changes which caused a decrease in inequality. When Cardoso became the Finance Minister in 1993, immediately he reorganized economic policies and aimed to solve traditional problems of Brazil. His success as Finance Minister helped Cardoso to become president in 1995. During his presidency, he used neoliberal policies, but at the same time, he focused on social assistance programs for solving social problems. As a result, Brazilian inequality started to decrease slightly. After Cardoso, Lula became the president in 2003. Contrary to expectations, he continued to use the same economic policies as Cardoso. Yet, he also continued with Cardoso's social policies. Indeed, inequality continued to decrease, but this time to a larger extent, so socioeconomic policy changes have an important role in the decrease of inequality.

I criticized Kuznets' hypothesis for the case of Brazil because his explanation is not sufficient to understand what occurred in Brazil. According to Kuznets, with industrial production, there was a shift from agricultural sector to industrial sector. In detail, poor people migrated to the cities and tried to find job in the industrial sector. Of course, natives who were born in the cities have much more ability to organize and adapt to the new process, but newly immigrant population did not have such ability. After a while, Kuznets (1955) argues that they also get used to living in the city and began to get similar wages with natives by equalizing their abilities.

However, this is not a case in Brazil. From 1990 to 2012, employment in agriculture decreased 10% whereas, during this period, employment in industry increased only 1% (World Bank Indicators, n.d.). Brazilians mainly went towards to informal economy (The Economist, 22nd February 2003b). This means that inequality in Brazil

did not decrease as Kuznets says that poor people equalized their abilities with the rich and they found a job in the industrial sector. In other words, it can be said that industrial economy provided a high growth to Brazil, but not necessarily decreased inequality. In fact, by investigating the case of Brazil in detail, it is true to say that economic growth is a necessary, but not sufficient condition to decrease inequality. Socioeconomic policy changes have much more effect on the decrease of inequality. This means that this study criticizes Kuznets hypothesis.

Although Lula used Cardoso's policies to fight against inequality, during Cardoso's period, inequality did not change very much. Mainly, inequality decreased with Lula. In this point, it is essential to know that the effects of policies can be seen in the long run. In other words, social policies do not give their results immediately. Furthermore, Cardoso mainly focused on economic stabilization. By stabilizing the economy, he made a contribution to decrease in inequality. Although inequality in Cardoso's period did not decrease as in Lula's period, surely Cardoso was as successful as Lula, because Lula took Cardoso's social policies as a base and by improving those policies, he tried to solve the inequality problem. The support of this idea came from the Minister of Social Development under Lula's presidency, Patrus Ananias. He stated that "we did not start from zero" (The Economist, 17th September 2005: 58). Previous government was also effective in their success because this process had begun with them. So both Cardoso and Lula tried to reduce income inequality in which they succeeded.

It is important to state that, although Cardoso and Lula initiated new socioeconomic policies and showed a lot of effort to decrease inequality, during their sixteen years it declined only from 0.608 to 0.546. Yet, poverty decreased

significantly from 14% to 6% during two decades. It basically decreased more than half with the new policies. Inequality in Brazil did not decrease so much, because it is not easy to decrease inequality. Moreover, if we think that 1 is a high level of inequality and 0 is low level of inequality, Brazil still has an important inequality problem. In fact, although Brazil is on the right road, it needs radical changes to be able solve its huge inequality problem. In the existing economic system, socioeconomic policies reduce poverty, but they do not decrease inequality radically. That brings to mind whether inequality problem can ever be really solved under the existing liberal economic system that Brazil has. It seems the answer is no. Unless there is a radical redistribution of wealth and resources, Brazil will probably continue to be one of the most unequal societies in the world, but at least with fewer people in absolute poverty.

To expand this study, it can be effective to look at other cases. For instance, Argentina from Latin America and, South Africa and Russia from BRICS can be good cases to investigate the relationship between economic growth and inequality. Briefly, Argentina began to use extremely market-oriented economy by the 1990s. During the period between 1991 and 2010, it had high economic growth except between 1999 and 2002 because of economic crises in 1998 and 2001. But then immediately, its economy recovered and Argentina's GDP began to grow sharply. Detailed information about the GDP of Argentina can be seen in Appendix-B. On the other hand, since the end of the 1980s, its inequality began to increase although Argentina did not have huge inequality problem (Lusting, Lopez-Calva and Ortiz-Juarez, 2012). Especially between the end of the 1990s and beginning of the 2000s, there was an important increase in inequality. In 2003, Néstor Carlos Kirchner

became the president in Argentina. He came from the left of the political spectrum, so Kirchner's government in Argentina began to provide more social protection policies such as Unemployed Household Heads program (*Jefes y Jefas Hogar Desocupados* in Spanish) as the other Latin American countries. As a result, the state became more pervasive (Lusting, Lopez-Calva and Ortiz-Juarez, 2012). With these new policies, employment increased and income was redistributed to unskilled and semi-skilled workers. As a result, in this period, inequality began to decrease in Argentina. All statistics about inequality are listed in Appendix-C.

During the 1990s, South Africa had a stable economy and by the beginning of the 2000s, its GDP began to increase significantly (see Appendix-D for detailed statistics about GDP). During this process, until the 2000s, its inequality increased gradually, but then, it began to increase dramatically. Actually, the high economic growth of South Africa did not bring wealth to all the people. For this reason, by the beginning of the 2000s, the government began to provide social assistance programs to fight against inequality. So, with 2006 inequality in South Africa began to decrease sharply. (Detailed inequality statistics can be found in Appendix-E.)

The case of Russia is different from Argentina and South Africa because Russia had a socialist regime in which social policies were common and inequality was low. However, with the dissolution of Soviet Union, everything changed in Russia. According to World Development Indicators (n.d.), during the 1980s the GDP of Russia decreased dramatically. The dissolution of the Soviet Union in 1991 could not also stabilize the Russian economy. Between 1990 and 2003, there was no big change in GDP, but by the mid-2000s, the economy of Russia grew sharply (See Appendix-F). On the other hand, according to the World Development Indicators

(n.d.), between 1988 and 2009, inequality in Russia increased significantly from 0.24 to 0.40 by taking GINI as a base. The important thing here is that with the new period, Russia decreased its social spending and they mainly focused on economic growth.

This means that this study can be expanded and developed with investigating other comparative cases. Here I chose Argentina, South Africa and Russia as examples. It seems that they have supported the concluding remarks of the case of Brazil which is that the state's socioeconomic policies are more crucial than economic growth for dealing with inequality. However, it is necessary to research further. Especially, it would be important to investigate which socioeconomic policies are more effective in specific countries for decreasing inequality. This is what further investigations can focus on.

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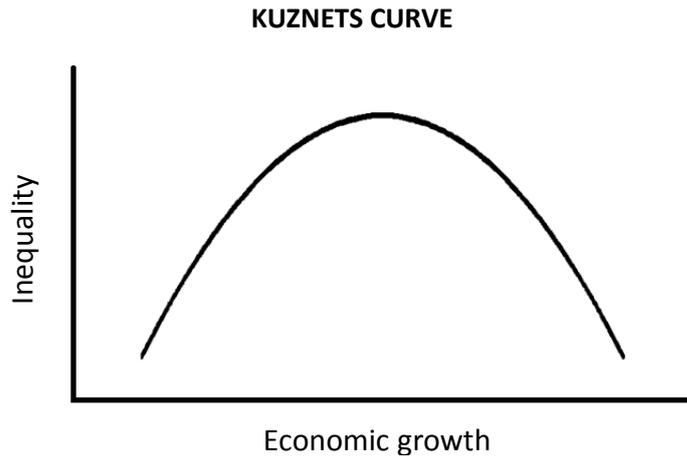
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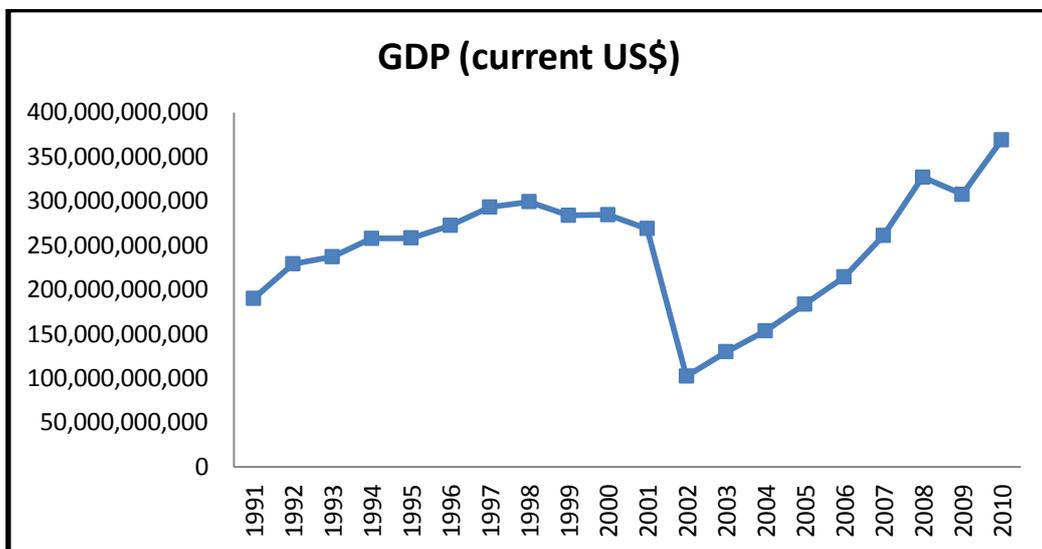
APPENDICES

APPENDIX A: Kuznets curve



Source: Barro, R. J. (2000). Inequality and growth in a panel of countries. *Journal of Economic Growth*, 5(1), 5–32.

APPENDIX B: GDP (current US\$) of Argentina



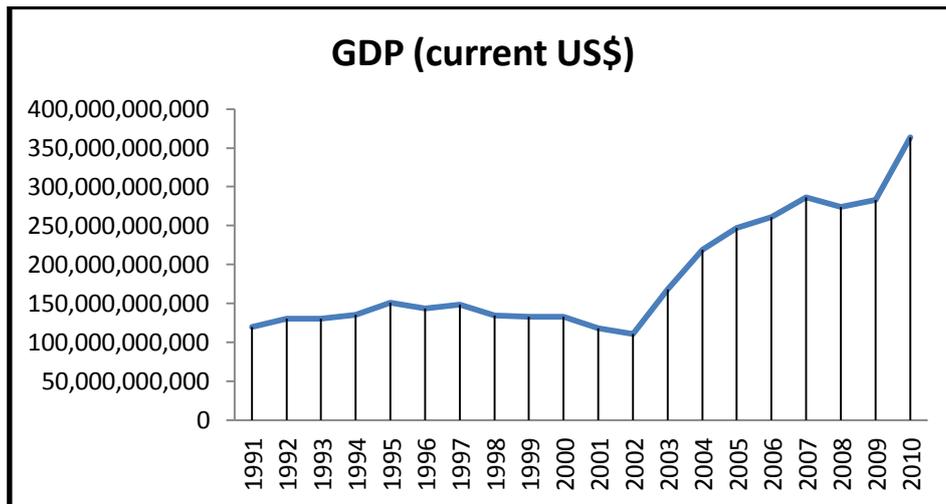
Source: World Development Indicators

APPENDIX C: GINI coefficient of Argentina

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GINI	0.47	0.45	0.45	0.46	0.49	0.50	0.49	0.51	0.50	0.51	0.53	0.54	0.55	0.50	0.49	0.48	0.47	0.46	0.46	0.44

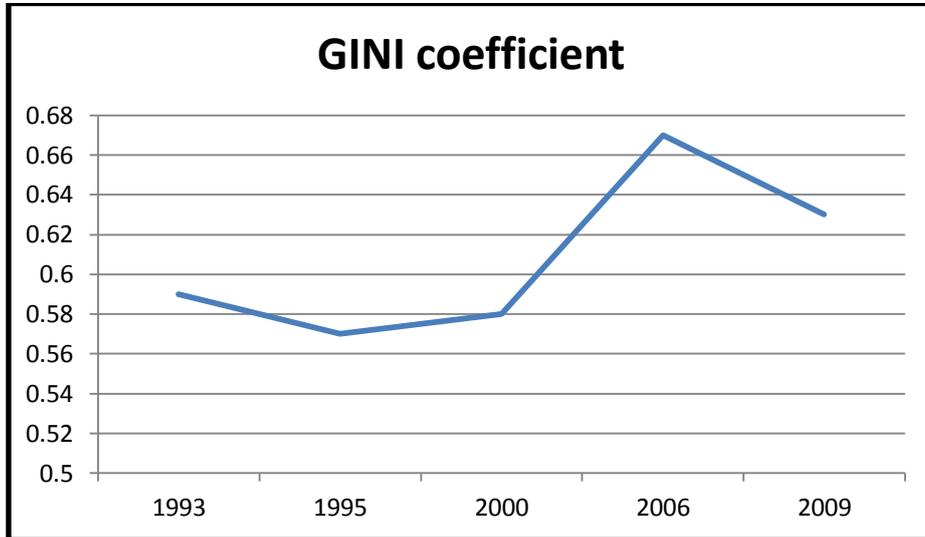
Source: World Development Indicators

APPENDIX D: GDP (current US\$) of South Africa



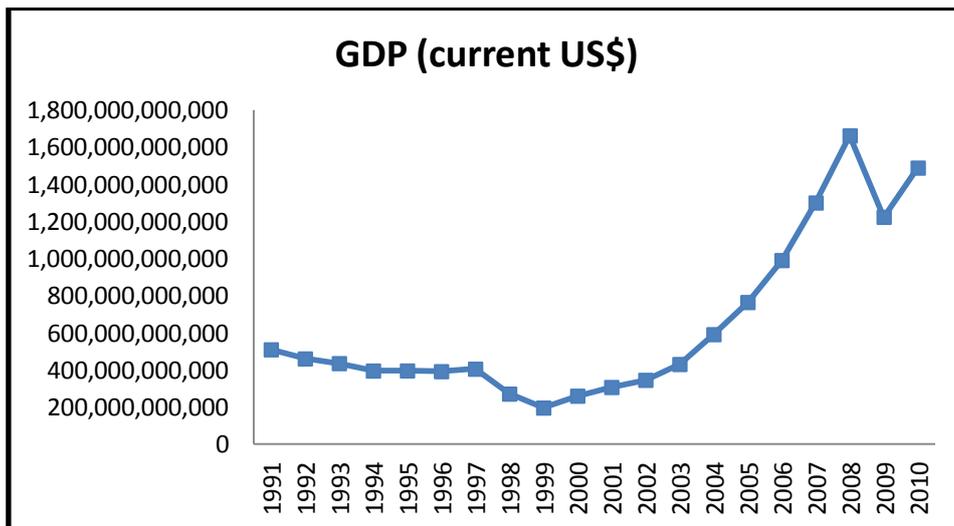
Source: World Development Indicators

APPENDIX E: GINI coefficient of South Africa



Source: World Development Indicators

APPENDIX F: GDP (current US\$) of Russia



Source: World Development Indicators