Does the rise of the middle class disguise existing inequalities in Brazil?

Yume Tamiya

Working Paper No. 17
September 2019

University of Sussex

CGPE
The Centre for Global Political Economy

CENTRE FOR GLOBAL POLITICAL ECONOMY

University of Sussex
Brighton
BN1 9SN
United Kingdom
Telephone: +44 (0) 1273 872735
Fax: +44 (0) 1273 723 673563
E-Mail: cgpe@sussex.ac.uk
Website: www.sussex.ac.uk/cgpe

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Does the rise of the middle class disguise existing inequalities in Brazil?

In 2018/2019 the CGPE launched an annual Gender & Global Political Economy Undergraduate Essay Prize competition, open to all undergraduate students within the School of Global Studies. The winner of the 2018/2019 competition is Isabella Garcia for the essay “How do global supply chains exacerbate gender-based violence against women in the Global South?” Isabella graduated with a BA in International Relations and Development in July and will join the MA cohort in our Global Political Economy programme for 2019/2020. Given the very strong field of submissions, the award committee further decided to award a second-place prize to **Yume Tamiya** for the essay “Does the rise of the middle class disguise existing inequalities in Brazil?”. Yume graduated with a BA in International Development with International Education and Development. We are delighted to publish both of these excellent essays in the CGPE Working Paper series.

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Introduction

The middle class in Brazil is on the rise. A large number of the previously poor in Brazil are now propelled into what Brazilian economist Marcelo Neri calls "the new middle class" (Neri, 2010, p.27). Neri sees this as a trend in decreasing inequality (2010, 2014). However, there are four main issues regarding the optimism about the rise of the middle class. First, the macroeconomic analysis of the rising middle class tends to whisk the existing financial inequality in Brazil out of sight. Although the World Bank (2011) and Lopez-Calva (2012) claim that inequality has decreased over the past decade,,recent studies show that their measure of inequality is politically conservative and highly misleading. They fail to recognise the full scale of inequality since data measured by the absolute Gini coefficient (to measure absolute inequality rather than relative inequality) and the Palma Ratio, both of which show a significant increase in inequality, are not reflected in standard data sources (Hickel, 2017; Ravallion, 2018). According to Hickel (2017) and Ravallion (2018), international financial institutions such as the World Bank use the standard measurement of inequality (the relative Gini coefficient), which render economic growth more inclusive than it is in actuality, as a tool to justify global capitalism. Second, the optimistic view towards the middle class obscures the existing inequitable political-economic system in Brazil in terms of tax collection and social welfare, which create substantial income and wealth inequalities (Montero, 2005; Lustig and Gasparini, 2011; Higgins and Preira, 2014; Georges, 2017; Morgan, 2018; Sklair, 2018). Third, the middle class is often seen in isolation (Southall, 2018), which tends to depoliticise the underlying issues of entrenched structural power, exploitation and inequalities (Wright, 1997; Mercer, 2014; Melber, 2016; Southall, 2018). Fourth, within the class structure, macroeconomic accounts tend to overlook historically embedded class, racial and gender inequalities (Gonçalves, 2010; Corossacz, 2017).

The essay will be divided into three parts: Part I will discuss how the macroeconomic analyses of the rising middle class distract from existing financial inequalities in Brazil. In Part II and III, I will argue that the optimistic view that the rise of the middle class is indicative of reducing inequality does not adequately capture existing structural inequalities and class relationships involving the exploitation of the lower class; these factors could be a significant barrier to achieving equality. Part II will explore the ways in which economic and welfare policies benefit the non-poor and lead to substantial structural inequality (Montero, 2005; Higgins and Pereira, 2014; Stampini et al., 2016; Morgan, 2018). Part III will explore how structural inequalities based on race, class and gender have been formed in Brazil in terms of access to education, employment opportunities and incomes. This is because macroeconomic accounts of inequality tend to focus exclusively on household incomes (Neri, 2014), overlooking the root causes of inequalities and exploitation including racism, sexism and classism, let alone the social realities of the exploited (Gonçalves, 2010; Vanden and Prevost, 2015; Corossacz, 2017). This section will also focus on domestic work because this is an arena where racial, gender and class discrimination intersects and leads to sexual and labour exploitation of Afro-Brazilian women - who are disproportionately at the bottom of the social hierarchy - by both middle-class men and women (Montero, 2005; Gonçalves, 2010; Corossacz, 2017). Finally, I will conclude that the amplification and celebration of the rising middle class is perilous since this fails to recognise the wider issues of exploitation and social realities of people of the lower classes as well as existing inequalities between the top and the bottom of the social hierarchy.

PART I: MACROECONOMIC APPROACH TO THE MIDDLE CLASS AND INCOME INEQUALITY

Marcelo Neri (2010, 2014) observes that the income of the previously poor significantly improved during the early 2000s by using the Brazilian government's classification, which differentiates economic classes based on total household income as shown in the table 1 below. According to Neri (2014), 44.7 million people entered the new middle class: Class C from 2003 to 2013. During the same period, 12.5 million joined the "traditional middle class": Class A and B (Neri, 2014).

Table 1: Economic classifications defined by total household income (R$) (calculated from per capita household income) *in R$ January 2014 prices

Economic Classes	Lower Limit	Upper Limit
Class E	0	1,254
Class D	1,255	2,004
Class C	2,005	8,640
Class B	8,641	11,261
Class A	11,262	-

Source: Neri (2014)

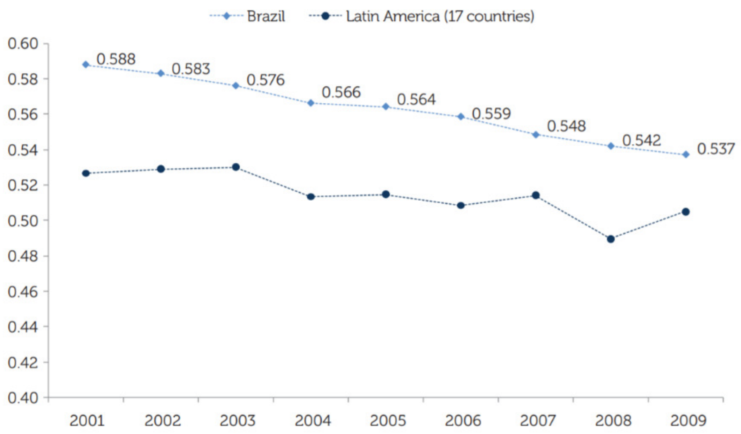
Neri's analysis based on the above economic classification, however, seems to be arbitrary as it is not clear how those whose income is just below Class C can be defined as non-middle class. Moreover, it distracts from the gap between the income of Class E (the poorest) and the "upper limit" of Class A, which is conveniently unspecified.

Economists are optimistic about the rise of the middle class, whilst attributing the rise of the middle class in Brazil to a "growth-equity combination" (Neri, 2014, p.2): extensive provision of primary and secondary education; increased availability of consumer credit; direct cash transfer programmes; and the increased entry of a large share of Brazilian populations into formal labour sector (The World Bank, 2011; Lopez-Calva, 2012; Neri, 2014). Moreover, Neri

(2010, 2014) optimistically maintains that the increased household income and the rising middle class will lead to reduction in inequality when it is, in fact, increasing (Hickel, 2017; OECD, 2018; Ravallion, 2018; UNDP, 2018).

Some would counter-argue that income inequalities in Latin America including Brazil have decreased. The World Bank (2011) claim that Latin America has achieved a "break with history" (p.21) based on the recent decline in income inequality measured by the Gini coefficient.

Figure 1. The Gini coefficient for Brazil and Latin America from 2001 to 2009

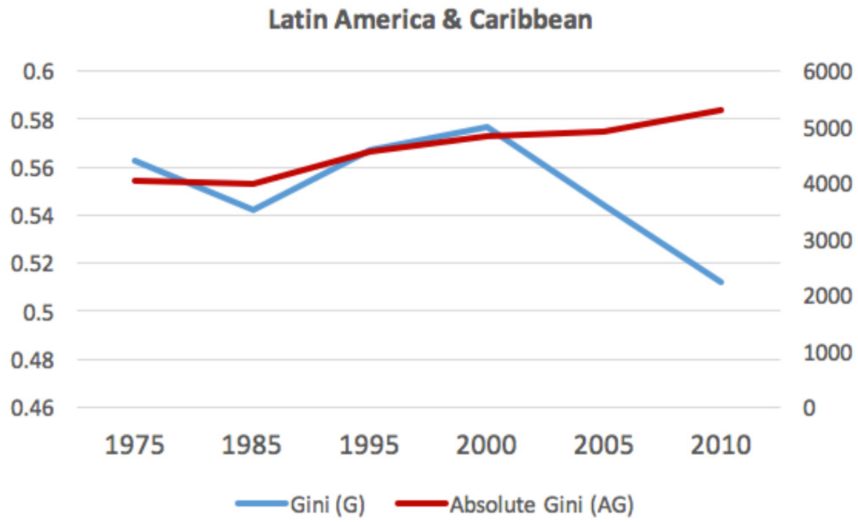


Source: Lopez-Calva (2012)

The above graph shows that income inequality in Brazil has steadily declined from 2001, when the country's Gini coefficient was extremely high (nearly 0.6), to 0.537% in 2009. This seems to indicate that Brazil is on track to achieve income equality.

However, there are issues with the measure of inequality. The Gini coefficient does not capture the gap between the top and the bottom of income distribution because it is sensitive to changes in the middle of income distribution, which tends to be stable over time (Cobham et al., 2016). Moreover, depending on whether to see inequality in absolute terms or relative terms, the Gini coefficient produces different outcomes. According to a recent study, inequality is on the rise when it is seen in absolute terms (Niño-Zarazúa et al., 2016a; Ravallion, 2018). The relative Gini coefficient, which is predominantly used by the World Bank to render it comparable to other countries (Ravallion, 2018), fails to acknowledge the rising absolute inequality. The difference between relative inequality and absolute inequality is that the former is measured by ratio and the latter by income gap. For example, persons A and B had incomes of $1 and $10 a day 30 years ago, respectively. Due to economic growth, now the person A would earn $8 and the person B would have $80 per day. In absolute terms, inequality has gone up significantly (the current income gap is $72 as compared to $9 thirty years ago), whereas inequality in relative terms remains unchanged (A: B = 1:10). By this measure, Niño-Zarazúa, et al. (2016b) show different outcomes of income inequality as shown in Figure 2 below.

Figure 2: Trends in inequality in Latin America and Caribbean from a relative and absolute perspective



Source: Niño-Zarazúa, et al. 2016b

The graph indicates that the relative Gini coefficient decreased from 2000 to 2010. By contrast, the Absolute Gini shows the opposite; inequality has steadily increased over the last few decades (Niño-Zarazúa et al., 2016b). This evidence contradicts the World Bank's (2011) claim that inequality has declined in Latin America. Although data for the Absolute Gini for Brazil is not available, this shows the World Bank's failure to acknowledge the full scale of inequality, making their claim misleading.

According to another measure of inequality, the Palma Ratio, which has overcome the downside of the relative Gini coefficient (sensitivity to changes in the middle of income distribution), income inequality in Brazil has increased. The Palma Ratio measures the Gross National Income share of the top 10% of the population divided by the share of the poorest 40% (Cobham et al., 2016). The average Palma Ratio in Brazil from the period 2010 to 2017 is 3.5 (UNDP, 2018) as compared to 2.96 in 2009 (OECD, 2018). This shows that the top 10% of income distribution earns 3.5 times more than the bottom 40%. It also indicates that income inequality in Brazil has increased over the last decade.

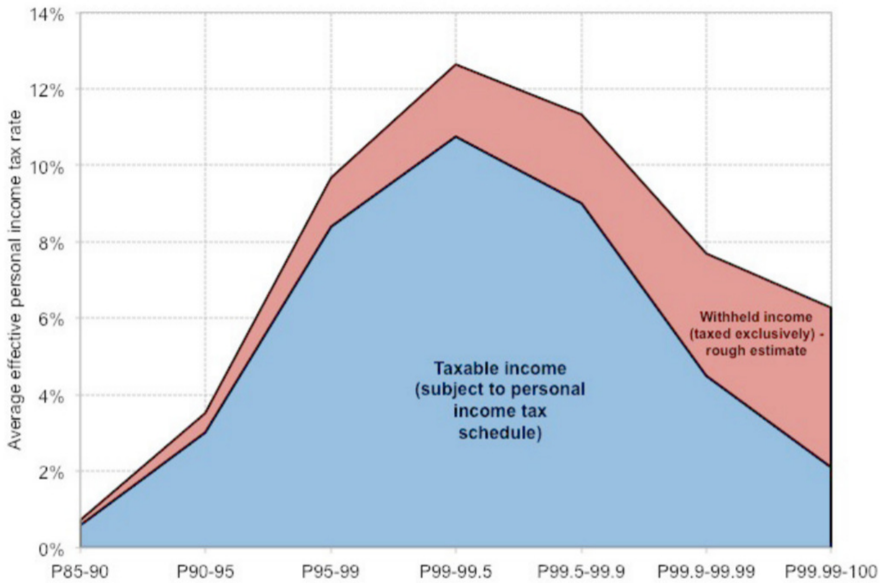
Macroeconomic analyses of both the middle class by Neri (2010, 2014) and income inequality by Lopez-Calva (2012) and the World Bank (2011) fail to capture the increasing income inequality in Brazil, class relationships, power and exploitation. Instead, they render economic growth more inclusive than it is by using politically conservative, misleading data (Hickel, 2017; Ravallion, 2018). As Hickel (2017) states, "[whether income inequality diminishes] depends on the balance of class power: who gets to determine policy when it comes to workers' rights, wages, taxes, and inflation" (p.2217). Moreover, according to Southall (2018), "economists regularly let the rich 'off the hook' and fail to explore the real dimensions of class and power at play" (p.10). The macroeconomic analyses neither capture the social realities of lower classes that are often subjected to exploitation by the upper class and middle class nor acknowledge underlying issues behind inequality including racism, classism and sexism (Gonçalves, 2010; Vanden and Prevost, 2015). The dynamics of power and class will be analysed from a political-economic viewpoint in Part II and a sociological perspective in Part III.

PART II: POLITICAL-ECONOMY OF INCOME AND WEALTH INEQUALITIES

President Luiz Inácio Lula da Silva (2003-2011) implemented the expansion of social welfare and economic policies including a conditional cash transfer programme: Bolsa Familia (Singer, 2014; Bastos, 2015). However, this did not challenge the existing capitalist interests; rather, wealth is increasingly concentrated at the very top of income distribution in Brazil (Montero, 2005; Higgins and Pereira, 2014; Stampini et al., 2016; Morgan, 2018). There are two main factors for increasing income and wealth inequalities in Brazil: an inequitable tax collection system and poorly distributed social welfare.

First, the concentration of income and wealth at the top of the income distribution can be attributed to the inequitable taxation policy. A recent study by Marc Morgan (2018) shows that wealth concentrates in the few hands of the richest in Brazil largely due to the regressive taxation system that hardly levies taxes on personal incomes and wealth from the top of the income distribution as shown in the figure 3 below.

Figure 3: Average effective income tax rates for the richest of the income distribution in Brazil, 2015



Source: Morgan (2018)

The graph shows that personal income taxes decrease beyond the top 0.5% of income distribution until they reach nearly 6% of total income for the top 0.01% of the distribution (Morgan, 2018). This causes income inequality between the richest and those who are obliged to pay income taxes: the middle class and working class. In 2016, those who earn 80 times higher than the minimum wage per month (R$ 63,040) enjoyed 66% of the average tax exemption (Georges, 2017).

Indirect taxes on consumption goods are considerably high, which have deleterious effects on direct cash transfers and tend to damage the poorest population. Indirect tax payment accounts for approximately 25% of income of the poorest (Lustig and Gasparini, 2011). The poor pay insurmountable direct taxes on consumer goods including food products, freight, transportation, communications services and electricity, which exceed the amount of money that the poor receive through direct transfers and indirect subsidies combined (Montero, 2005; Higgins and Pereira, 2014).

Second, social welfare is poorly distributed. Although the rate of tax burden in Brazil is 33% of its Gross Domestic Product (GDP), which is as high as the OECD average (34%) (Georges, 2017), welfare programmes tend to benefit the non-poor. A study by Higgins and Pereira (2014) shows that 73% of total direct transfers leak to the non-poor. Moreover, the richest receive generous pensions (Montero, 2005).

PART III: RACE, GENDER AND CLASS INEQUALITIES IN BRAZIL

The optimism about the rising middle class tends to depoliticise the entrenchment of racial, gender and class inequalities in Brazil, which are attributable to the colonial legacies of racism, patriarchy, elitism and classism (Vanden and Prevost, 2015). Class in Brazil is largely racialised, and gender inequality also adds another dimension to the marginalisation of Afro-Brazilian women, who are at the bottom of the social hierarchy (Gonçalves, 2010; Corossacz, 2017). The section focuses on domestic work for Afro-Brazilian women since this kind of precarious work is largely overlooked in debates on inequality (Bear, 2014). This is also an arena where the intersection of race, class and gender discrimination marginalises these women, and the middle class plays a part in this process since both middle-class men and women tend to employ domestic workers from the lower class, often perpetrating sexual violence or exploiting their labour (Goldstein, 2003; Silva, 2010)

The Racialisation of Class

Brazil was under colonial rule by the Portuguese from 1500 to 1815, who brought slaves from Africa for economic exploitation (Guimaraes, 2007). Colonial Brazil was characterized by high stratification based on wealth, property ownership, racial categories, and civil status – whether free or enslaved (Nazzari, 1996). Slavery remains a significant factor for creating class relations rather than household wealth, education, or place of residence in contemporary Brazil (Andrews, 1992; Reichmann, 2010; Layton and Smith, 2017). As Guimaraes (2007) states, the colonial relationship between white slave owners and slaves in the colonial past "evolved into 'class'" (p.126). In today's Brazil, lower classes constitute non-whites rather than white people (Santos, 2011; Layton and Smith, 2017).

Racial discrimination is persistent, which affects outcomes in education, employment and incomes (Andrews, 1992; Arias et al., 2004; Lovell, 2010; Layton and Smith, 2017). Afro-Brazilians earn 48% as much as whites earn for the same job (Montero, 2005; Layton and Smith, 2017). Returns to education also vary in accordance with skin colour due to the persistent discrimination in the labour market, especially when it comes to non-whites' access to better-paid jobs (Arias et al., 2004). The table below shows the level of schooling and the average income level by race.

Table 2: Average income level for level of schooling by race in 2016

Level of schooling	White	Black
Full Higher Education	4,185	3,144
Partial Higher Education	2,157	1,716
Full Secondary Education	1,958	1,497
Partial Secondary Education	1,414	1,107
Full Primary Education	1,599	1,214
Partial Primary Education	1,396	1,006
None	1,411	1,011

Source: Georges (2017)

This shows that Afro-Brazilians earn less than white counterparts who have completed the same level of education. Moreover, the different average income in accordance with levels of education suggests that education is a significant factor in determining incomes.

It must be noted, however, that Afro-Brazilians face considerable barriers to accessing education. They are more likely to drop out and complete a lower number of years of schooling than white counterparts. In 2015, the average years of completed schooling for blacks was 7.4 years as compared to 9 years for whites mainly due to low quality education that black students tend to receive (Georges, 2017). This also hinders them from pursuing higher education. In 2010, only a quarter of university graduates were black students; university courses for high-income professions are also taken almost exclusively by white students; and the chance of Afro-Brazilian students acquiring diplomas is only half of white students in engineering and one fifth of white counterparts in dentistry (Georges, 2017).

The Intersectionality of Class, Race and Gender

In addition to race and class, gender adds another dimension to inequalities in Brazil. These are neither mutually exclusive nor fixed categories; rather, they can reinforce each other, particularly marginalising Afro-Brazilian women, who are at the bottom of the social pyramid (Montero, 2005; Kerstenetzky et al., 2015; Vanden and Prevost, 2015). Racial gender gaps in education, wages and occupations are significant in Brazil (Lovell, 2010). Black female students are disproportionately hindered from accessing education as compared to female white counterparts (Arias et al., 2004). In terms of monthly wages, white men's average salary is US$542; white women earn $338 per month; black men earn $275, whereas black women earn only $185 (Lovell, 2010; Corossacz, 2010).

Economists assume that the increased participation of women in the labour market leads to less occupational segregation and inequality (Lopez-Calva, 2014; Salardi, 2016). However, this is not the case in Brazil because women, particularly non-whites, disproportionately enter services occupations including domestic work, which is a historically segregated occupation (Salardi, 2016; Corossacz, 2017). There are currently 7.2 million domestic workers, 93% of whom are women; 61.6% of them are black women (Corossacz, 2017). An empirical study by Salardi (2016) shows that there is a tendency for women to be discriminated against based on their education and race in the formal sector. This makes less educated non-white women into the informal sector (Gonçalves, 2010; Salardi, 2016). The double (racial and gender) discrimination tends to cause Afro-Brazilian women to have little or no choice but to go into domestic work. According to an interview by Gonçalves (2010), a young black female domestic worker stated, “unfortunately, paid domestic work is a door into the work market for black women in our country” (p. 63).

Domestic Work as a Site of (Racialised) Class Formation and Exploitation by the Middle Class

The rising middle class has increased access to and demand for affordable domestic work, leading to (racialised) class differentiation. Silva (2010) identifies that the “ease of accessing others’ labour originates from the forms of economic inequality” (p.22) and “the employment of paid domestic help increases with income and the whiteness of the skin” (p.23). Goldstein (2003) also argues that “the site of employer and domestic worker relations is really a site of class formation” (p.63). According to Sheriff (2001), employment of female domestic workers by the middle class is a “conspicuous marker of middle-class status” (p.24).

The rise of the middle class has not challenged the power relationships between white middle-class men and women and female Afro-Brazilian domestic workers, perpetuating gender-based violence as well as labour exploitation (Gonçalves, 2010; Corossacz, 2017). The economists' optimistic view that the rising middle class as a sign of progress in achieving equality often depoliticises these issues, which could leave the voice of the most marginalised section of Brazilian society unheard. Corossacz (2017) argues that the domestic domain in Brazilian homes is characterised by authority and obedience between middle-class employers and female domestic workers. The intersection of sexism and racism by white middle-class men also plays a huge part in forming exploitation of Afro-Brazilian female domestic workers, which is redolent of slavery (Gonçalves, 2010; Corossacz, 2017). Prejudices against dark-skinned women are prevalent; Afro-Brazilian women are often labelled as ‘domestic workers or seductresses’ based on the racist and sexist assumption that they are “available” (Corossacz, 2017; Layton and Smith, 2017). Afro-Brazilian female domestic workers are often subject to sexual violence by employers, sons, husbands, relatives and friends (Gonçalves, 2010; Corossacz, 2017). According to a survey by DeSouza and Cerqueira (2009), 26% of 366 unionised domestic workers in Porto Alegre answered that they had experienced some form of sexual harassment at work within a year.

Glucksberg (2018) argues that class differentiation, reproduction of elites' power and inequalities are formed through the exploitation of reproductive work that elite and non-elite women undertake; however, she overlooks the possibility that (white) middle-class elite women also exploit (black) female domestic workers. The Brazilian Employers Union President in São Paul: Margareth Galvao Carbinato stated, "if domestic workers' rights are approved in the Federal Congress, labour costs will be unsustainable for employers," and "our families are not companies; we cannot pay all the costs because domestic work is a different kind of work that doesn't generate any profit" (Gonçalves, 2010, p.63). This shows how middle-class women try to maintain their power and their status at the expense of exploited labour of female Brazilian domestic workers.

Conclusion

In conclusion, macroeconomic analysis of the rising middle class obscures not only the existing income, wealth, racial, and gender inequalities, but also the exploitation of the lower classes by the middle class. The essay has examined these power dynamics from political-economic and sociological perspectives beyond macroeconomic analysis of income inequality. Economists including Marcelo Neri (2010, 2014) have optimistic views towards the rising middle class in Brazil, associating it with reduction in inequality. Moreover, the World Bank (2011) and Lopez-Calva (2012) claim that income inequality has decreased over the past decade and Brazil is on track to achieve equality based on the relative Gini coefficient. However, the data that they use is highly misleading, as it does not capture absolute inequality as well as the gap between the rich and the bottom of income distribution due to its sensitivity to the middle of income distribution (Cobham et al., 2016). In fact, according to a more reliable measure of inequality: the Palma Ratio, income inequality in Brazil has increased. In addition, the analysis of the political economy sheds light on the concentration of wealth in the fewer hands of the richest in Brazil. The inequitable tax collection system, poor distribution of social welfare, and privately-owned family firms and family succession of wealth and power reproduce wealth and income inequalities. Moreover, optimism about the rising middle class tends to fail to recognise the entrenchment of class, racial and gender inequalities in Brazil in terms of access to education, employment opportunities and incomes, which are embedded in the colonial legacies of racism, classism and patriarchy (Vanden and Prevost, 2005). Power differentiation between white slave owners and slaves in the colonial past formed class relationships based on skin colour, and gender inequality has been an additional marginalising factor for Brazilian women of colour (Guimaraes, 2007; Santos, 2011; Layton and Smith, 2017). Female Afro-Brazilians tend to be at the bottom of the social pyramid, facing double (race and gender) discrimination in the labour market. Afro-Brazilian female domestic workers particularly tend to be subject to labour and sexual exploitation by both middle-class women and men, respectively, which shows the intersection of racial, gender and class discrimination. Hence, the amplification and celebration of the rising middle class based on macroeconomic analysis overlook the power dynamics, race, class and gender inequalities and the exploitation of the lower classes by the middle class.

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