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Neoliberalism and its Consequences in Brazil*

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Abstract. This article examines the impact of a decade of neoliberal policies on poverty and income distribution in Brazil. It demonstrates that while trade and market reform contributed towards the attainment of price stability and accelerated capital inflows, little was achieved by way of reducing income inequality and poverty. The article concludes by outlining the policy options which might be adopted to tackle this critical problem.

The 1990s marked the triumph of neoliberal economic policies and globalisation in Latin America. The old paradigms of development through import substitution industrialisation (ISI), in a closed economy setting, with a large role for the state, were jettisoned in favour of an open economy for the state, with an exit of the state through massive privatisation and the predominance of market forces. The convergence of the region within the neoliberal paradigm can only partially be attributed to a general recognition of the inefficiencies associated with ISI. In addition, the adoption of the new policy framework was the result of a comprehensive shift in international power relationships. With Latin American economies desperately in need of capital inflows following the debt crisis of the early 1980s, policy makers in the region found themselves under unprecedented pressure to accept the prescriptions of multilateral international financial institutions, backed by the major industrial countries and the principal creditors of the region.

In this article we first summarise the policy agenda pursued over the 1990s. This is followed by an analysis of the positive impact of these policies, focusing in particular on stabilisation. The core of the article consists of an examination of the distributional consequences of these policies. It concludes with a discussion of the possibility of reconciling efficiency with equity.

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Background

The course of these developments was lent intellectual credence by an increasingly influential body of economists directly and indirectly connected with the multilaterals. A well-publicised summary of the justifications for the regions' neoliberal policies was articulated by John Williamson in a 1993 article.[1]

> The superior economic performance of countries that establish and maintain outward-oriented market economies subject to macro-economic discipline is essentially a positive question. The proof may not be quite as conclusive as the proof that the earth is not flat, but it is sufficiently well established as to give sensible people better things to do with their time than challenge its veracity.[2]

By the end of the 1980s most Latin American countries had adopted the so-called 'Washington Consensus' policy orientation. This consisted of the following combination of measures:

1) An effective attack on inflation through drastic fiscal adjustment.
2) Privatisation of state owned enterprises, both in the industrial and public utility sectors.
3) Trade liberalisation, which consisted of pronounced declines in tariff, and especially, non-tariff protection.
4) The prevalence of market interest rates.
5) Opening most sectors to foreign investment and substantially decreasing controls over the actions of foreign capital.[3]

In reviewing the rise and fall of the Washington Consensus, Charles Gore finds two types of persuasive arguments:

> … first, arguments about the intrinsic ethical superiority of economic liberalism; and second, theoretical and empirical analyses which demonstrate that conformity to the norms of a LIEO (Liberal International Economic Order) would lead to better outcomes, not simply for the world community as a whole, but also for individual nation-states within it.[4]

For their advocates the policies associated with the Washington Consensus have long been viewed as conducive to efficient economic growth. More recently, however, their anti-poverty credentials have been advocated by various sources. For instance, Dollar and Kraay (2000) making a cross section

[1] John Williamson, 'Democracy and the "Washington Consensus",' *World Development*, vol. 21, no. 8 (1993), pp. 1329–36.
[2] *Ibid.*
[3] John Williamson, 'What Washington means by policy reform,' in John Williamson (ed.), *Latin American Adjustment: How Much has Happened?* (Washington DC, 1990), pp. 7–20.
[4] Charles Gore, 'The rise and fall of the Washington Consensus as a paradigm for developing countries,' *World Development*, vol. 28, no. 5 (2000), pp. 789–804.

Table 1. *Tariff Rates (All Products) 1990–1994*

Tariff	1990	1991	1992	1993	1994
Average	32.2%	25.3%	21.2%	17.7%	14.2%
Mode	40.0%	20.0%	20.0%	20.0%	20.0%
Standard deviation	19.6%	17.4%	14.2%	10.7%	7.9%

Source: W. Fritsch and G. Franco, *Foreign Direct Investment in Brazil: Its Impact on Industrial Restructuring* (Paris, 1991), p. 20.

study of about 80 countries found that:

> … it is almost always the case that the income of the poor rises during periods of significant growth.[5]

> … in our large sample of countries and years there is no apparent tendency for growth to be biased against poor-income households at early stages of development.[6]

> … there is no evidence that crises affect the poor disproportionately.[7]

Openness to international trade raises incomes of the poor by raising overall incomes. The effect on the distribution of income is tiny and not significantly different from zero.[8]

Finally they found that:

> Macro stability, proxied by stabilisation from high inflation, increases income of the poor more than mean income as it tends to improve income distribution.[9]

These conclusions were based on cross section econometric exercises. It may be useful to verify them through in-depth analysis of individual country experiences. In this article we examine the veracity of these conclusions in the light of the experience of just one country, Brazil.

Brazilian neoliberal policies in the 1990s

As the 1990s wore on Brazil's policy stance increasingly conformed to the so-called Washington Consensus. At the beginning of the decade, with the accession of President Collor, import tariffs were rapidly decreased. In percentage terms, average tariffs levels declined by approximately half between 1990 and 1994 (Table 1).[10] In 1990 President Collor's first year in power, the

[5] David Dollar and Aart Kraay, 'Growth is good for the poor,' working paper, World Bank, 2000, pp. 1–51.

[6] *Ibid.*, p. 4. [7] *Ibid.*, p. 4. [8] *Ibid.*, p. 5. [9] *Ibid.*, pp. 6–7.

[10] The liberalisation trend was occasionally interrupted. For example, as a result of the initial appreciation of the Real in late 1994 and early 1995, Brazil's imports skyrocketed, leading the government to re-impose temporarily direct quantitative restrictions on such imports as automobiles.

vast majority of non-tariff barriers were abolished, rapidly subjecting domestic firms to intense foreign competition. Between 1990 and 1999 the import of goods to GDP ratio rose from 4.4 per cent to 8.9 per cent.

Collor also initiated the process of privatisation. This was at first limited to steel and petrochemicals. However, after President Cardoso came to power in 1995 the privatisation process expanded rapidly into such fields as public utilities and transportation infrastructure. The period since 1995 also witnessed an unprecedented programme of investment liberalisation. For instance, an amendment to the constitution eliminated any differentiation in the legal status of domestic and foreign firms. Foreign capital was allowed to enter sectors from which it was previously excluded, such as oil exploration and public utilities.[11]

With the final taming of inflation in 1994–5[12] the fiscal deficit began to expand to worrying proportions. Faced with the danger this posed to the maintenance of long-term price stability, the government embarked on an ambitious programme of fiscal reform. This encapsulated many of the central tenets of the Washington Consensus. Expenditures were curtailed, tax reform put in train and efforts were made to improve the funding base of the social security system.[13]

The positive impact of neoliberalism

The most notable achievement in the 1990s was the attainment of price stability shortly after the introduction of the Real Plan. As indicated in Table 2, the general price increase, after having peaked at 2,406 per cent in 1994, dramatically declined in the subsequent years, not exceeding one digit from 1997 onwards. This accomplishment mainly resulted from the imposition of a very tight monetary policy, combined with the delayed effects of opening the economy to international competition. However, the process of fiscal adjustment began, for various political reasons, with a substantial lag. The primary balance of the budget only went into surplus in 1999.

As we have noted, the privatisation programme shifted into high gear in the second half of the 1990s. By 2000, the total income from privatisation amounted to US$82,311 m (Table 3). The major participants in the programme

[11] Werner Baer, *The Brazilian Economy* (Westport, 2001).

[12] This was achieved through tight monetary policy and progressive de-indexation under the terms of the stabilisation package known as the Real Plan. For details see Edmund Amann and Werner Baer, 'The illusion of stability: the Brazilian economy under Cardoso,' *World Development*, vol. 28, no. 10 (2000), pp. 1805–19.

[13] *Ibid.*

Table 2. *Brazil: Rates of Price Changes*

	General Price Index*	Wholesale Price Index**	Consumer Price Index***
1990	2740.2	2735.1	2863.9
1991	414.7	400.7	423.8
1992	991.3	976.9	992.9
1993	2103.4	2065.4	1936.3
1994	2406.9	2279.0	2111.3
1995	67.5	58.8	66.0
1996	11.1	6.3	15.2
1997	7.9	8.1	6.0
1998	1.7	1.5	2.5
1999	20.0	28.9	8.3
2000	9.8	12.1	6.0
2001****	11.2	14.3	6.6

* Indice Geral de Preços/DI; ** Preços por atacado/DI; *** IPCA IBGE index. **** yearly in April.

Source: 'Quadros Estatísticos,' *Conjuntura Econômica*, August 2000.

Table 3. *Accumulated foreign participation in the privatisation programme, 1991–2000 (US$ M)*

	Federal government privatisations	(%)	State government privatisations	(%)	Telecoms privatisations	(%)	Total	(%)
Foreign participation	9,472	34.6	13,654	48.9	16,011	59.3	39,137	47.5
Total	27,414	100	27,919	100	26,978	100	82,311	100

Source: Banco Nacional de Desenvolvimento Econômico e Social (BNDES). See www.bndes.gov.br for further data.

were large Brazilian and international industrial/financial groups.[14] For a variety of reasons (investment liberalisation, privatisation, the development of Mercosul), Brazil experienced a huge increase in the inflow of foreign direct investment, growing from a yearly average of less than US$2bn at the start of the 1990s and reaching a yearly average at the end of the decade of more than US$30bn. Of these direct foreign investment flows, approximately 40 per cent were tied to the privatisation process. The remainder of flows were dominated by investment connected with bank take-overs and expansion and modernisation of production facilities.

In sum, by the turn of the century, the Brazilian economy appeared to be a smoothly functioning, ever more internationally integrated market economy.

[14] Baer, *The Brazilian Economy*; Armando Castelar Pinheiro, 'Privatização no Brasil: Por quê? Até onde? Até quando?,' in Fabio Gambiagi and Maurício Mesquita Moreira (eds.), *A economia brasileira nos anos 90* (Rio de Janeiro, 1999), pp. 147–82.

Table 4a. *Brazil: Real GDP and Component Growth Rates*

	Real GDP	Per capita GDP (US$)	Agriculture	Industry	Services
1986	7.5	1915	−8.0	11.7	8.1
1987	3.5	2057	15.0	1.0	3.1
1988	−0.1	2186	0.8	−2.6	2.3
1989	3.2	2923	2.8	2.9	3.5
1990	−4.3	3243	−3.7	−8.2	−0.8
1991	1.0	2771	1.4	0.3	2.0
1992	−0.5	2605	4.9	−4.2	1.5
1993	4.9	2847	−0.1	7.0	3.2
1994	5.9	3546	5.5	6.7	4.7
1995	4.2	4542	4.1	1.9	4.5
1996	2.7	4924	3.1	3.3	2.3
1997	3.3	5060	−0.8	4.7	2.5
1998	0.2	4867	1.9	−1.4	1.1
1999	0.8	3234	7.4	−1.6	1.9
2000	4.5	3584	3.0	5.0	3.8

Source: IBGE (Brazilian Geographic and Statistical Institute) available at www.ibge.gov.br.

Table 4b. *Brazil: Annual Average Growth Rates for GDP in the 1980s and the 1990s*

Year	1980–1989	1990–1999
Annual av. growth (%)	3.03	1.82

Source: IBGE.

Problematic aspects of Brazil's neoliberalism

One of the most striking disappointments of the 1990s was the anaemic growth performance of the economy (see Table 4a). The average yearly growth rate in the 1990s was 1.82 per cent (see Table 4b) which was lower than the average growth rate in the so-called 'lost decade' of the 1980s which stood at 3.03 per cent. Table 4a indicates that the weakest performance was displayed by the industrial sector. In part, the poor output performance of industry is reflective of increasing import penetration which forced domestic enterprises to cede market share to foreign producers.[15] Of course, as will be shown, the poor industrial output performance had serious distributional consequences as firms shed labour.

Also notable is the performance of the investment to GDP ratio, which was weak throughout the 1980s, declining in the early 1990s, before recovering

[15] Just between 1990 and 1995 one notes a rapid surge in import share of total supply. For instance, the import-total supply ratio increased from 4.7 per cent to 9.8 per cent in metallurgy; 12.6 per cent to 21.4 per cent in machines and tractors; 18.4 per cent to 33.2 per cent in electrical equipment; 0.5 per cent to 16.8 per cent in transport equipment; 2.4 per cent to 10 per cent in textiles (Source: IBGE Input-Output Table, various years).

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Table 5. *Brazil: Gross Fixed Capital Formation (% of GDP)*

Year	In current prices	In 1980 prices
1989	24.8	16.6
1990	21.5	15.8
1991	18.9	15.1
1992	19.1	14.5
1993	19.3	14.4
1994	22.1	15.2
1995	22.3	16.8
1996	20.9	16.5
1997	21.5	18.1
1998	21.2	17.7
1999	20.4	16.0

Source: IBGE.

slightly in the second half of the decade (Table 5). This stands in surprising contrast to the dramatic growth in foreign direct investment. This curious paradox may be partially explained by the fact that about 40 per cent of foreign direct investment was destined for the purchase of (the existing) assets of state enterprises. It can also be explained by the fact that public sector investment continued to be relatively marginal.[16] In particular, the first half of the 1990s saw a substantial fall-off in public investment in infrastructure[17] before a moderate recovery between 1994 and 1998. However, with the tightening of fiscal policy since the eruption of the Asian Financial Crisis, public sector investment has once again come under pressure.[18] In overall terms, though, the fact that there was no dramatic increase in the investment/GDP ratio is not necessarily an indication of weakness: under the neoliberal regime one of the key objectives has been to increase the productivity of investment.

In addition to the country's anaemic growth, the neoliberal regime did not resolve Brazil's traditional social problem, its distribution of income. It has been shown in the past that no matter what the policy regime, the distributional problem has always haunted the country.[19] As can be seen in Table 6, the Gini coefficient hardly changed over the period. This was particularly unfortunate since Brazil has continued to have one of the world's most uneven

[16] Public sector investment had decreased from 3.1 per cent of GDP in the 1970s, to 1.5 per cent in the 1980s, recovering to 1.9 per cent of GDP in the 1990–94 period and once again falling to 1.7 per cent in 1995–7 (Source: Ricardo Bielschowsky et al., 'Formação de capital no ambiente das reformas economicas Brasileiras dos anos 1990: uma abordagem setorial,' in Renato Baumann (ed.), *Brasil: uma decada em transição* (Rio de Janeiro, 2000), p. 147.

[17] Edmund Amann, *Economic Liberalisation and Industrial Performance in Brazil* (Oxford and New York, 2000).

[18] Economist Intelligence Unit, *Brazil Country Report: December* (London, 2000).

[19] Werner Baer and Donald V. Coes, 'Privatization, regulation and income distribution in Brazil,' *Quarterly Review Of Economics And Finance*, vol. 41, no. 5 (2001), pp. 609–20.

Table 6. *Indicators of Income Distribution and Poverty: 1977–1999*

Year	Gini Coefficient	Theil Index	Gap between the richest 20% and the poorest 20%	Gap between the richest 40% and the poorest 40%	Poor as a percentage of the population*
1977	0.62	0.91	27.5	26.8	39.6 (40.7)
1978	0.60	0.74	31.3	25.0	42.6 (45.2)
1979	0.60	0.74	32.9	25.2	38.8 (42.0)
1980	n.a.	n.a.	n.a.	n.a.	n.a.
1981	0.59	0.69	24.0	21.8	43.2 (50.7)
1982	0.59	0.71	25.6	23.0	43.2 (52.0)
1983	0.60	0.73	25.7	23.5	51.1 (62.8)
1984	0.59	0.71	23.6	22.4	50.5 (63.6)
1985	0.60	0.76	25.5	23.6	43.6 (56.9)
1986	0.59	0.72	24.0	22.1	28.2 (37.6)
1987	0.60	0.75	27.6	24.4	40.9 (55.4)
1988	0.62	0.78	30.9	27.2	45.3 (62.6)
1989	0.64	0.89	34.3	30.4	42.9 (60.7)
1990	0.62	0.78	31.2	26.9	43.8 (63.2)
1991	n.a.	n.a.	n.a.	n.a.	n.a.
1992	0.58	0.70	26.7	21.8	40.8 (57.3)
1993	0.60	0.77	28.8	24.5	41.7 (59.4)
1994	n.a.	n.a.	n.a.	n.a.	n.a.
1995	0.60	0.73	28.0	24.1	33.9 (50.2)
1996	0.60	0.73	29.8	24.6	33.5 (50.1)
1997	0.60	0.74	29.2	24.5	33.9 (51.5)
1998	0.60	0.74	28.6	24.2	32.8 (50.3)
1999	0.60	0.72	27.2	23.3	34.1 (53.1)

* Figures in parentheses are absolute numbers of poor in millions.

Source: Ricardo Paes de Barros, 'A establidade inaceitavel: desigualdade e pobreza no Brasil,' in Ricardo Henriques (ed.), *Desigualdade e pobreza no Brasil* (Rio de Janeiro, 2000), p. 24, p. 39.

Table 7. *Gap between the income of the richest 10% and the poorest 40% in the 1990s*

Low income countries		High income countries		Latin American countries	
China	1.6	United States	1.6	Brazil	5.6
Egypt	1.3	UK	1.9	Argentina	2.8
India	1.4	Sweden	1.0	Chile	4.4
Nigeria	2.4	Germany	1.3	Mexico	4.4
Pakistan	1.2	France	2.1	Peru	2.6

Source: Lauro Ramos and Maria Lucia Vieira, 'Determinantes da desigualidade de rendimentos no Brasil nos anos 90,' in Ricardo Henriques (ed.), *Desigualdade e pobreza no Brasil*, p. 160.

distributions of income. Among the countries surveyed by the World Bank's 2000/2001 *World Development Report*, only the Central African Republic and Sierra Leone had a worse index than Brazil. On the other hand, one finds a much more favourable distributional index in such countries as the United States (0.41), Sweden (0.25), Mexico (0.54), Peru (0.46) and Costa Rica (0.47).

Complementing the information given by the Gini coefficient is the dramatic gap which prevailed between Brazil's 10 per cent richest income groups and the 40 per cent poorest (Table 7). It will be noted that this ratio for Brazil was 5.6 compared with 2.8 in Argentina, or between 1.3 and 1.6 for various Asian countries. Although this ratio might be questionable in the case of some of these countries, it still gives an indication of Brazil being a particularly conspicuous case of inequality. According to Table 6 this gap has persisted throughout the last quarter of the twentieth century.

It should also be noted (Table 6) that the percentage of the population considered to be poor has declined since the early 1980s. In particular, one observes a dramatic reduction in numbers of the poor between 1993 and 1995, the percentage of the poor dropping from 41.7 per cent to 33.9 per cent. This substantial fall could be attributed to the introduction of the Real Plan in mid 1994, a development that led to a decline in inflation and rises in real incomes. However, one must be very cautious in interpreting these data. Most significantly in this regard it is important to note that the data contained in Table 6 are based on estimates of monetary income for different sectors of the population. Such data, of course, permit an analysis to be undertaken of the evolution of the distribution of income. In addition, when combined with some assessment of the poverty line, the data facilitate an approximate estimation of the absolute numbers of those in poverty. What the data cannot reliably indicate, however, is the extent to which the incidence of poverty more broadly defined may have evolved. As is commonly recognised, a more comprehensive assessment of poverty (and more generally the standard of living) requires the analysis not just of monetary incomes, but also access to non-market output (e.g. subsistence production), sanitation, education,

Table 8. *Evolution of the Human Development Index, 1975–1998*

	1975	1985	1990	1990 ranking	1998	1998 ranking
Brazil	0.639	0.687	0.706	59	0.747	74
USA	0.862	0.894	0.909	6	0.929	3
UK	0.837	0.854	0.874	10	0.918	10
Sweden	0.860	0.880	0.889	5	0.926	6
Canada	0.865	0.902	0.925	1	0.935	1
France	0.844	0.872	0.892	8	0.917	12
Argentina	0.781	0.801	0.804	43	0.837	35
Chile	0.702	0.753	0.780	36	0.826	38
Mexico	0.687	0.749	0.757	46	0.784	55
Peru	0.635	0.686	0.698	81	0.737	80
China	0.518	0.584	0.619	79	0.706	99
India	0.405	0.470	0.510	121	0.563	128
Egypt	0.430	0.529	0.570	110	0.623	119
Nigeria	0.317	0.388	0.411	128	0.439	151
Pakistan	0.352	0.420	0.462	120	0.522	135

Source: UNDP, *Human Development Report* (New York, 2000), pp. 178–81; UNDP, *Human Development Report* (New York, 1992), pp. 127–8.

healthcare and a range of other significant life quality-enhancing services which may be free at point of use to the consumer.

With these considerations in mind, the data in Table 6 need to be put in perspective at least so far as the final column is concerned. Examining the latter column, it is clear that by boosting real incomes the Real Plan had a significant impact upon the narrow, income based measure of poverty between 1993 and 1995. However, if one were to consider a broader definition of poverty embracing the non-income factors outlined above, then it would appear most unlikely that any such measure could have been as dramatically affected within the space of only one or two years.[20]

This cautious view regarding the impact of the Real Plan on poverty (broadly defined) is reinforced when one examines the results of the Human Development Index,[21] which appear on an annual basis in the UNDP's *Human Development Report*. It will be noted in Table 8 that although the Human Development Index (HDI) for Brazil improved from 1990 to 1998, it is still substantially below not only the advanced industrial countries but most of the larger Latin American countries as well. In addition, Brazil's ranking in the HDI declined from 1990 to 1998. It was ranked 59 in 1990 and 74 in 1998.

[20] Looking at the final column of Table 6, the same argument can also be applied in considering the dramatic fall in numbers of those in poverty between 1984 and 1986.

[21] The Human Development Index constitutes a composite standard of living indicator. Its key elements include GDP per capita, life expectancy and years of schooling.

Table 9a. *Average yearly growth rate of industrial output and employment, 1990–1998*

Year	(% change in production)	(% change in employment)
1986	10.9	11.0
1987	0.9	1.2
1988	−3.2	−4.2
1989	2.9	2.1
1990	−8.9	−5.4
1991	−2.6	−10.1
1992	−3.7	−7.7
1993	7.5	−1.9
1994	7.6	−2.2
1995	1.8	−1.9
1996	1.7	−11.2
1997	3.9	−5.8
1998	−2.0	−9.1
1999	−0.7	−7.8
2000	6.5	0.6

Source: IBGE.

Table 9b. *Real wages in industry, December* (*average, 1992 = 100*)

1992	1993	1994	1995	1996	1997	1998	1999	2000
116.1	127.3	147.0	162.3	163.5	171.7	168.2	152.9	151.4

Source: IBGE and BCB (Brazilian Central Bank) available at www.bcb.gov.br.

Another indication of the country's continued distributional and low human development ranking is the rise in urban violence. One study found a dramatic increase in the rate of homicides in the cities of Rio de Janeiro and São Paulo. In Rio de Janeiro the rate of male homicide per 100,000 inhabitants in the age bracket of 15–24 rose from 149 in 1981 to 275 in 1995; in São Paulo it rose from 54 to 128; and in São Paulo, for the age bracket of 24–44, it rose from 49 to 106.[22]

One source of continued inequality arises from the dramatically reduced employment opportunities in the industrial sector. Although industrial real wages went up considerably throughout most of the 1990s (see Table 9b), as Table 9a indicates, total industrial employment declined throughout much of the 1990s. Table 9a clearly shows that there was a decline in industrial employment every year in the 1990s. This occurred even in years when there was a positive growth in industrial production. Thus, even though the real wages of

[22] Monica Viegas Andrade and Marcos de Barros Lisboa, 'Desesperança de Vida: Homicidio em Minas Gerais, Rio de Janeiro e São Paulo: 1981 a 1997,' Mimeo., EPGE/FGV – Rio de Janeiro, 2000.

industrial workers increased, their numbers have declined. This may in part explain the continued prevalence of high Gini coefficients.

The lack of opportunities in the industrial sector is probably due to two major phenomena. First, the privatisation process resulted in a substantial dismissal of workers considered by the new owners to have been superfluous.[23] Second, the opening of the economy gave an incentive to many sectors to instal more technologically advanced equipment which was labour-saving in nature.[24]

In other words, declining employment opportunities in industry were not fully compensated by rises in employment opportunities in the service sector which absorbed labour at an average yearly rate of only 1.3 per cent between 1991 and 2001.[25] This also explains why Brazil's aggregate open unemployment figure rose from 5.1 per cent in 1994 to 7.6 per cent in 1999. For the São Paulo metropolitan area, data from DIEESE, a trade union sponsored research institute found that total unemployment (including disguised unemployment) rose from 9.4 per cent at the end of 1990 to 16.2 per cent at the end of 2000. Disguised unemployment over the same period rose from 2.9 per cent to 6.2 per cent.

The decline in employment, which has accompanied the restructuring (and privatisation) of Brazilian public utilities, has contributed strongly towards rises in average productivity levels. Comparing the first half of the 1980s with the second half of the 1990s, value-added per worker in manufacturing rose by 43 per cent, a dramatic increase in historical terms.[26] Reflecting falling inflation and this increase in productivity, real wages rose substantially over the course of the 1990s (Table 8b). The distributional implication of these trends was the granting of higher remuneration to a shrinking pool of workers who remained in the industrial sector. Many of those displaced as a result of the restructuring process found employment in more poorly paid and insecure service sector and informal industrial occupations.[27] Thus, if anything, this shows how the process of industrial restructuring has tended to reinforce the maintenance of a concentrated distribution of income.

[23] In the federal railroad system (RFFSA) about half of the 40,000 staff were made redundant before privatisation and afterwards the workforce was further reduced to 11,500 employees; the Comphania Siderurgia Nacional workforce was reduced from 24,463 in 1989 to 9,829 in 1998; Cosipa from 14,445 in 1989 to 6,983 in 1998; and Usiminas from 14,600 in 1989 to 8,338 in 1998.

[24] Amann, *Economic Liberalisation*.

[25] Calculated from data in IBGE Pesquisa Mensal de Emprego.

[26] World Bank, *World Development Indicators 2000* (Washington DC, 2000).

[27] Anne Caroline Posthuma, 'Introdução: transformações do emprego no Brasil na decade de 90,' in Anne Caroline Posthuma (ed.), *Abertura e ajuste do mercado de trabalho no Brasil* (São Paulo, 1999), pp. 5–26.

Compounding the income concentrating effects of labour-shedding, the privatisation of public utilities also had profound implications for the evolution of the real incomes of the poorest. Regulators felt it important to provide incentives to the new private owners of public utilities. For example, in the city of Rio de Janeiro, the prices of public services rose by 196 per cent while the general consumer price index rose by 90 per cent between August 1994 and November 2000.[28]

It is well known that the concentration of assets in Brazil has traditionally been very marked, beginning with the concentration of land ownership and continuing during the industrialisation process. In the latter, most sectors were characterised by the dominance of four to ten of the largest firms. For example, in 1998 the top four firms in the automotive sector accounted for 94 per cent of the sector's net receipts, while for the cement industry the leading seven firms were responsible for 60 per cent of total sectoral receipts.[29] The progress of privatisation has not greatly affected this long-standing pattern. Rather than opting for wide public share offerings, the privatisation authorities have instead chosen to transfer the assets of public enterprises to a relatively select group of long-established major domestic and foreign investors.[30]

Neoliberalism and equity: An evaluation

We have shown that neoliberalism in Brazil has consisted of a substantial increase in the openness of the economy to foreign trade and investment, a dramatic retreat of the state's participation in the economy. All of this took place within the context of a successful stabilisation programme, bringing the rate of inflation down from a four digit to a one digit level. These developments closely conformed to the Washington Consensus policy prescriptions reviewed at the beginning of this article.

The net results of these shifts in policy orientation were disappointing. First of all they did not result in high rates of economic growth. Second, although the distribution of income and other equity measures did not worsen, they did not substantially improve the country's inheritance of asset and income concentration and high levels of poverty. The generalisation made by Dollar and Kraay that growth will always benefit the absolute income levels of the poor finds some support in this case study. However, one should keep in mind that in the great growth spurt of Brazil in the years 1968–1973, the distribution

[28] *Conjuntura Econômica*, January 2001.
[29] Calculated from data in *Gazeta Mercantil, Balanço Anual 1999*.
[30] Baer and Coes, 'Privatization, regulation and income distribution'.

of income substantially deteriorated.[31] During the anaemic growth of the 1990s we have pointed out that the distribution of income did not notably even out and the situation of the poor did not undergo a substantial improvement, so far as can be detected from absolute poverty indicators.

Possible solutions

We have shown that, to date, neoliberal policies have not resulted in high growth with equity. Could this eventually be attained with the policies that have been adopted since the early 1990s? It is entirely possible that the new foreign direct investments in productive capacity will begin paying off in the first two decades of the twenty-first century, as both domestic and foreign demand picks up. Another contributor to growth will be the need of the new owners of public utilities to expand and modernise their capacity. Finally, it may also be possible to expect substantial growth in demand from some redistribution of income.

How could increased equity occur without endangering investment by private domestic and foreign firms? We expect greater future equity to be based on a more equitable distribution of assets. This does not imply a drastic redistribution of land ownership, as this will only affect a small proportion of GDP given agriculture's small share in national output.

Neither will a confiscation and redistribution of industrial assets solve the equity problem. The biggest challenge to Brazil and most other emerging economies around the world will be to successfully usher their societies into the post-industrial age in which the service sector will occupy the largest proportion of the working population. It is in this sector that human capital is essential.[32] However, the latter is very unevenly distributed. One of the most important roles of the state will therefore be to redirect resources so as to create the necessary human capital. The resulting growth with greater equity should also someday result in greater mass participation in industrial capital ownership through funds representing the economically enfranchised masses.

Finally, it is important to recognise that the role of the state has changed considerably. Whereas formerly it was an active participant in economic activity through its various enterprises, now it is being vested with a new role; that of regulator. This raises a new set of challenges. As a regulator the state has to balance the interests of investors (giving incentives for continued

[31] Baer, *The Brazilian Economy*, ch. 5; Albert Fishlow 'Brazilian Size Distribution of Income,' *American Economic Review*, vol. 62, May (1972), pp. 391–402.

[32] Werner Baer and William Maloney, 'Neo-liberalism and income distribution in Latin America,' *World Development*, vol. 25, no. 3 (1997), pp. 311–27.

investment and modernisation), consumers (avoiding crass exploitation) and maintaining regulatory institutions free from capture from various interest groups. Therefore, whereas the 1990s was a period when the economic role of the state was in retreat, the beginning of the twenty-first century offers the possibility for the re-emergence of the state as a promoter of growth and equity.