

# Regional Inequality and Regional Policies in Brazil

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# Inequality: a largely debated issue in Brazil

- Distribution of income: Gini coefficient hovering around 0.60 for decades
- Regional Inequality: North-South problem in Brazil “universally cited for its severity” (Williamson, 1965). Identified in the same paper as the highest regional inequality.

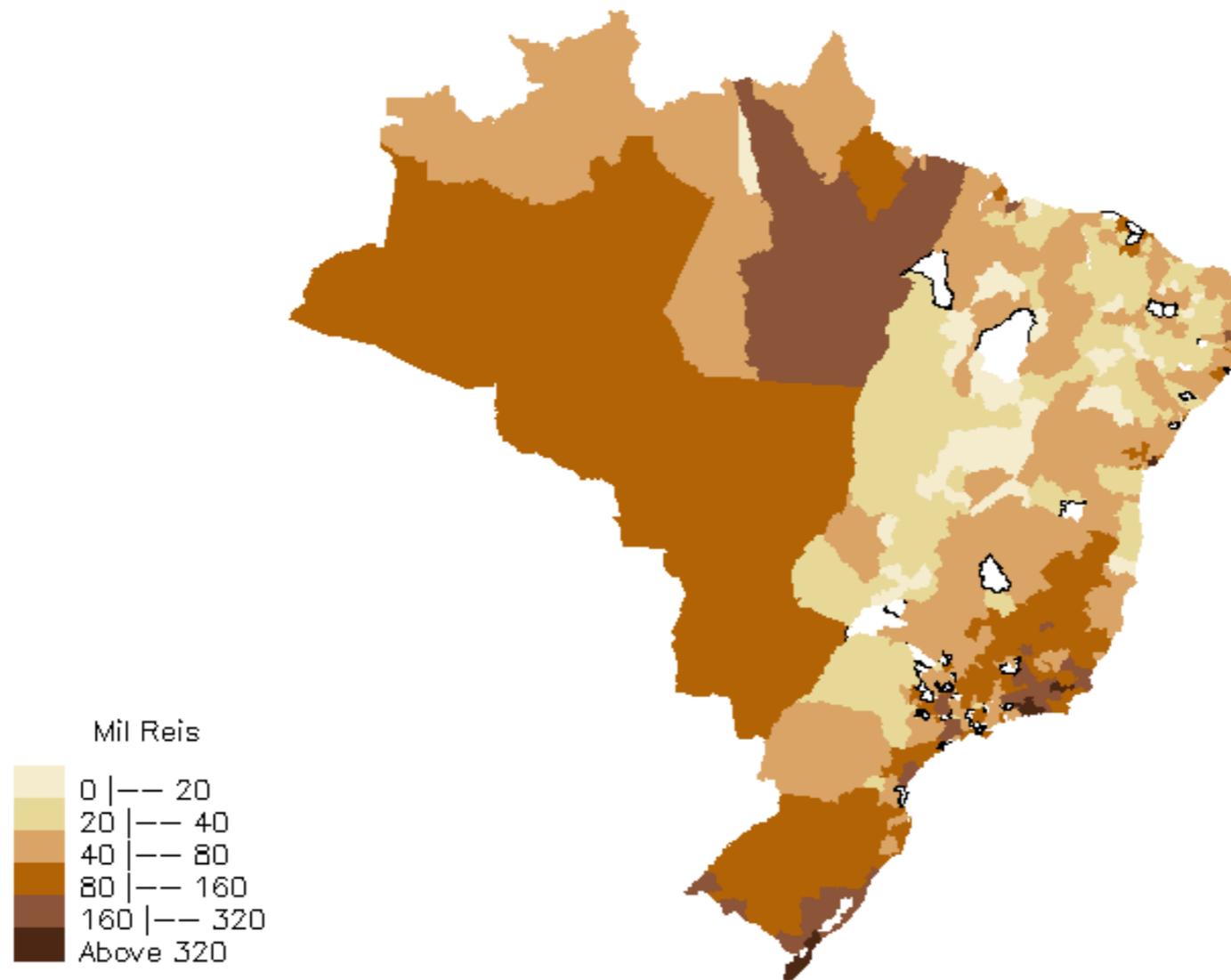
# Brazil still has a largest spatial inequality

Country	Richest Federative Unit		Poorest Federative Unit		Ratio Richest/Poorest
	Name	GDPpc*	Name	GDPpc*	
Argentina	City of Buenos Aires	40,828	Chaco	2,015	20.3
Australia	Australian Capital Territory	38,890	Tasmania	25,073	1.6
Brazil	Distrito Federal	33,246	Maranhão	3,915	8.5
Canada	Northwest Territories and Nunavut	54,758	Prince Edward Island	22,163	2.5
Germany	Hamburg	49,600	Thüringen	19,700	2.5
India	Goa	7,406	Bihar	1,019	7.3
Mexico	Distrito Federal	22,476	Chiapas	4,565	4.9
Switzerland	Basel-Stadt	139,077	Uri	43,226	3.2
United States	District of Columbia	131,343	Mississippi	25,044	5.2

\*OECD countries: 2007 data, constant 2000 international dollars. Argentina: 2008 data, nominal dollars. Brazil: 2007 data, nominal dollars. India: 2008 data, PPP dollars. Switzerland: 2011 data, nominal dollars.

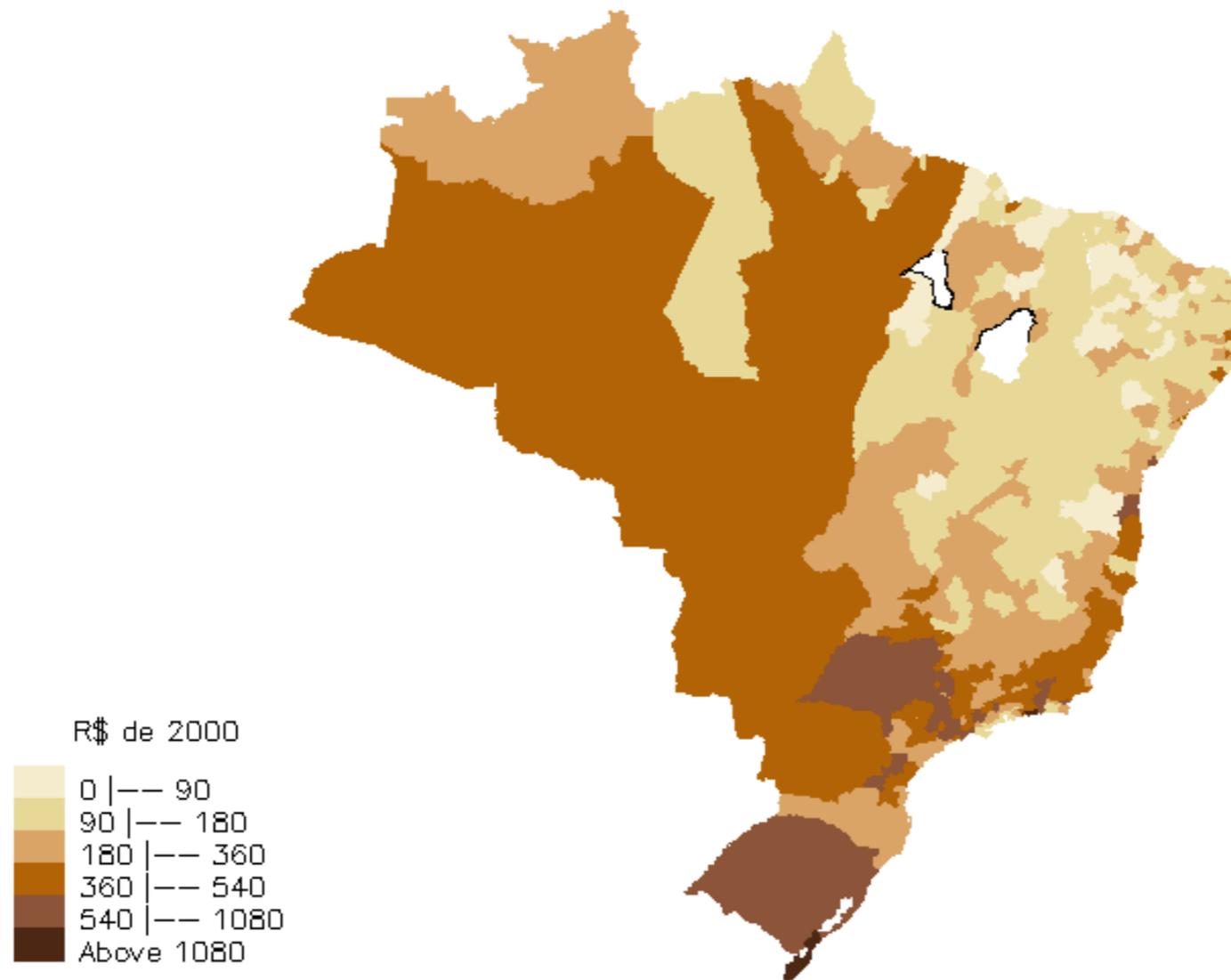
# Municipal GDP per capita (Y/P), 1872

Renda per capita dos municípios, 1872



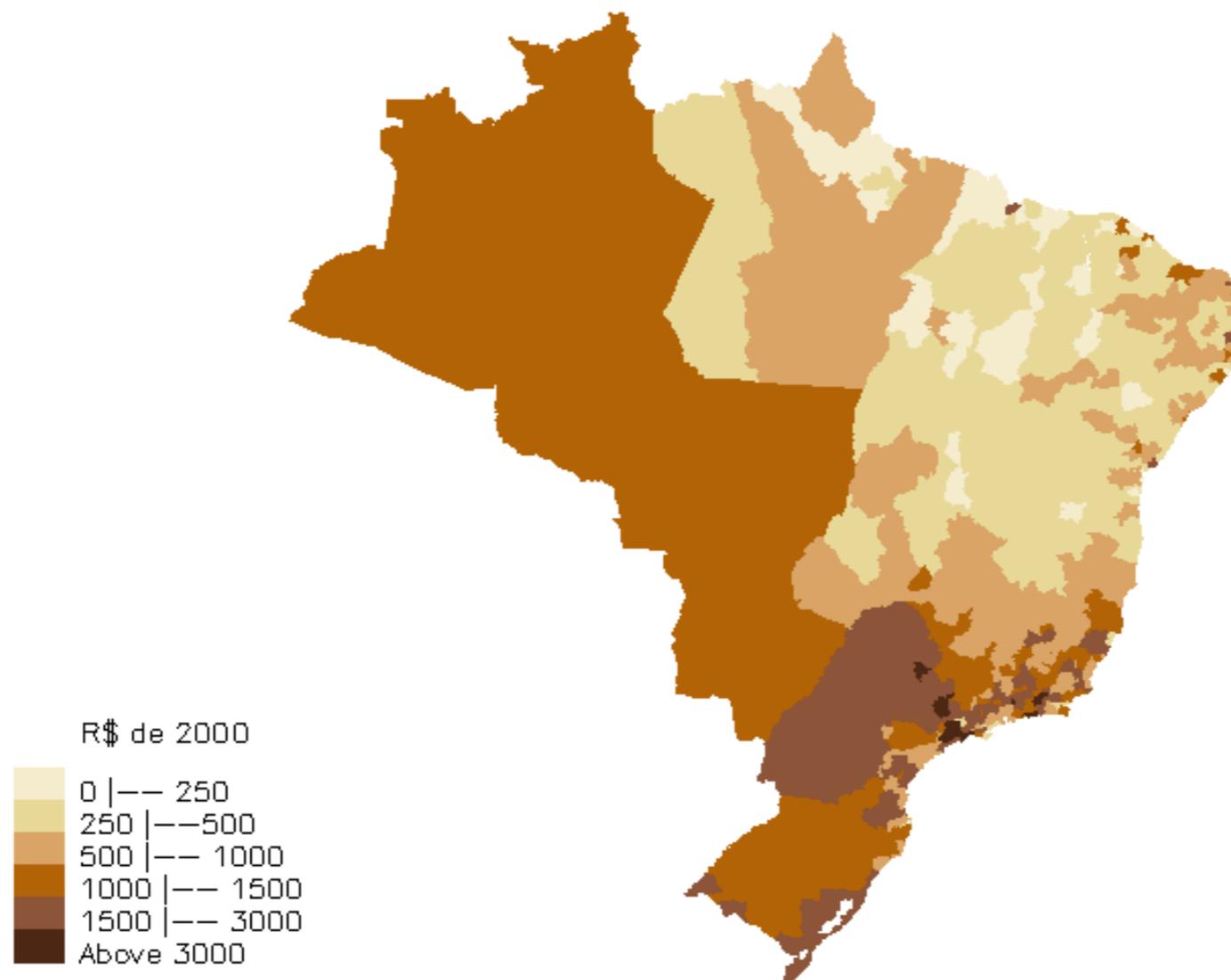
# Municipal GDP per capita (Y/P), 1919

Renda per capita dos municípios, 1919



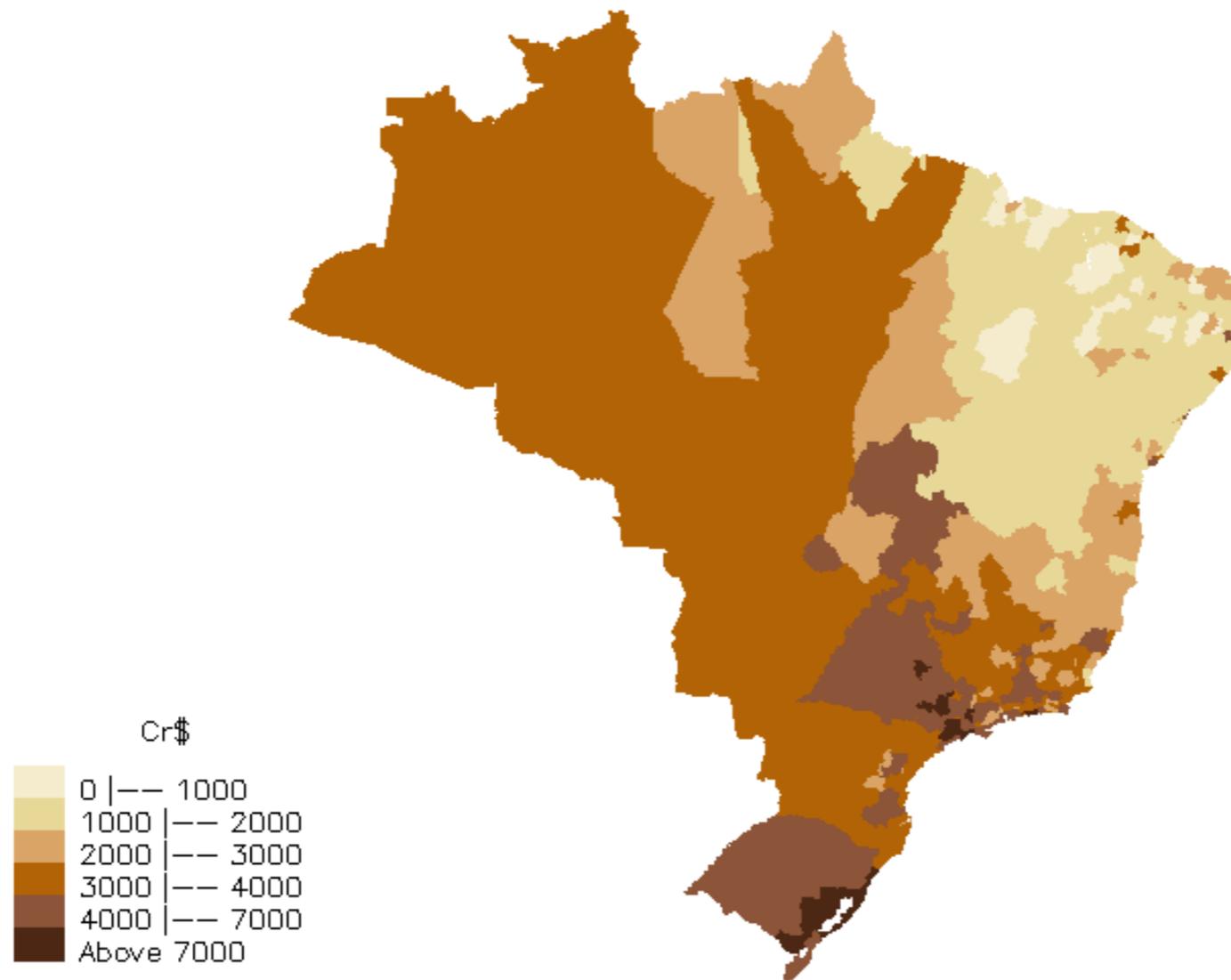
# Municipal GDP per capita (Y/P), 1949

Renda per capita dos municípios, 1949



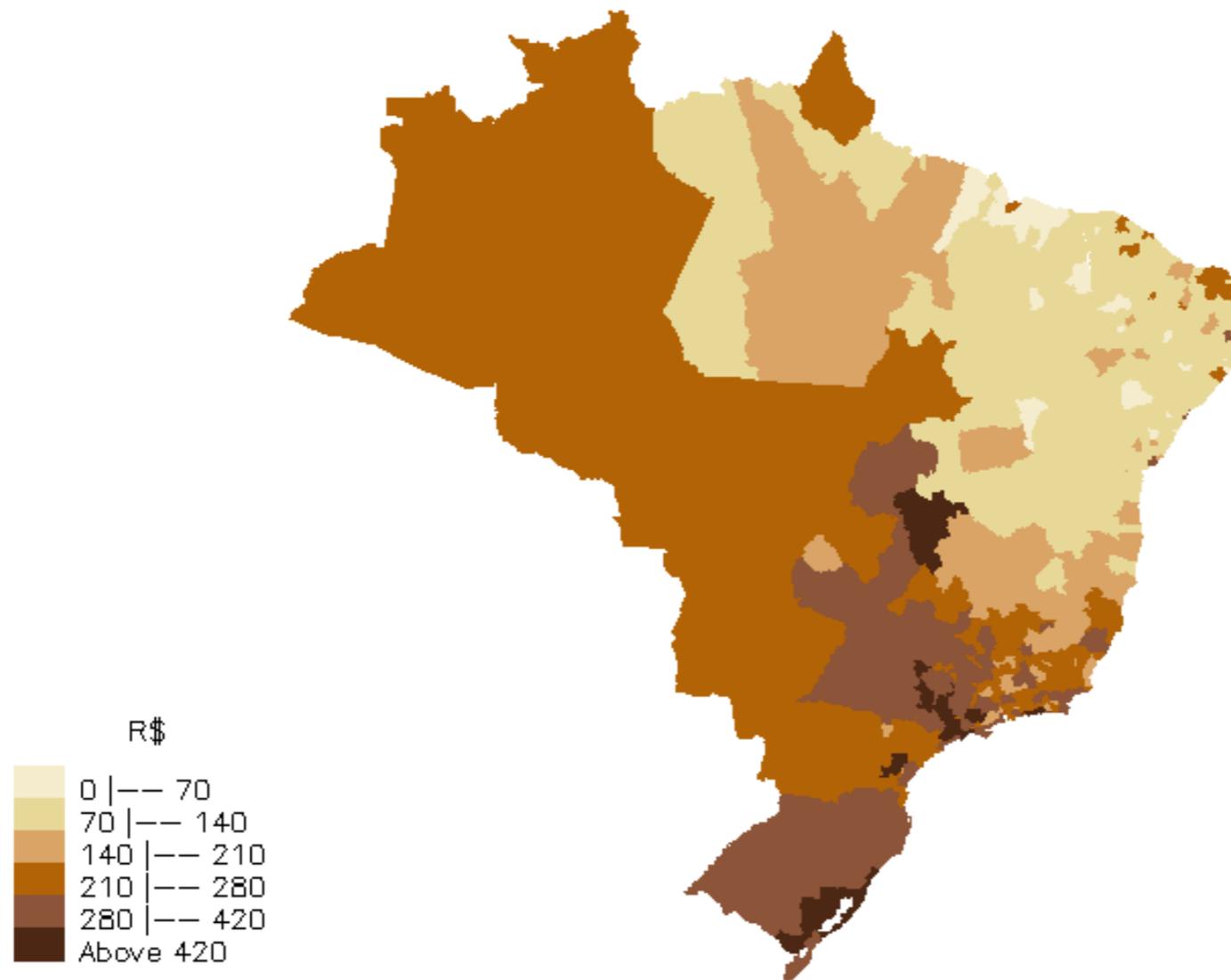
# Municipal GDP per capita (Y/P), 1980

Renda per capita dos municípios, 1980

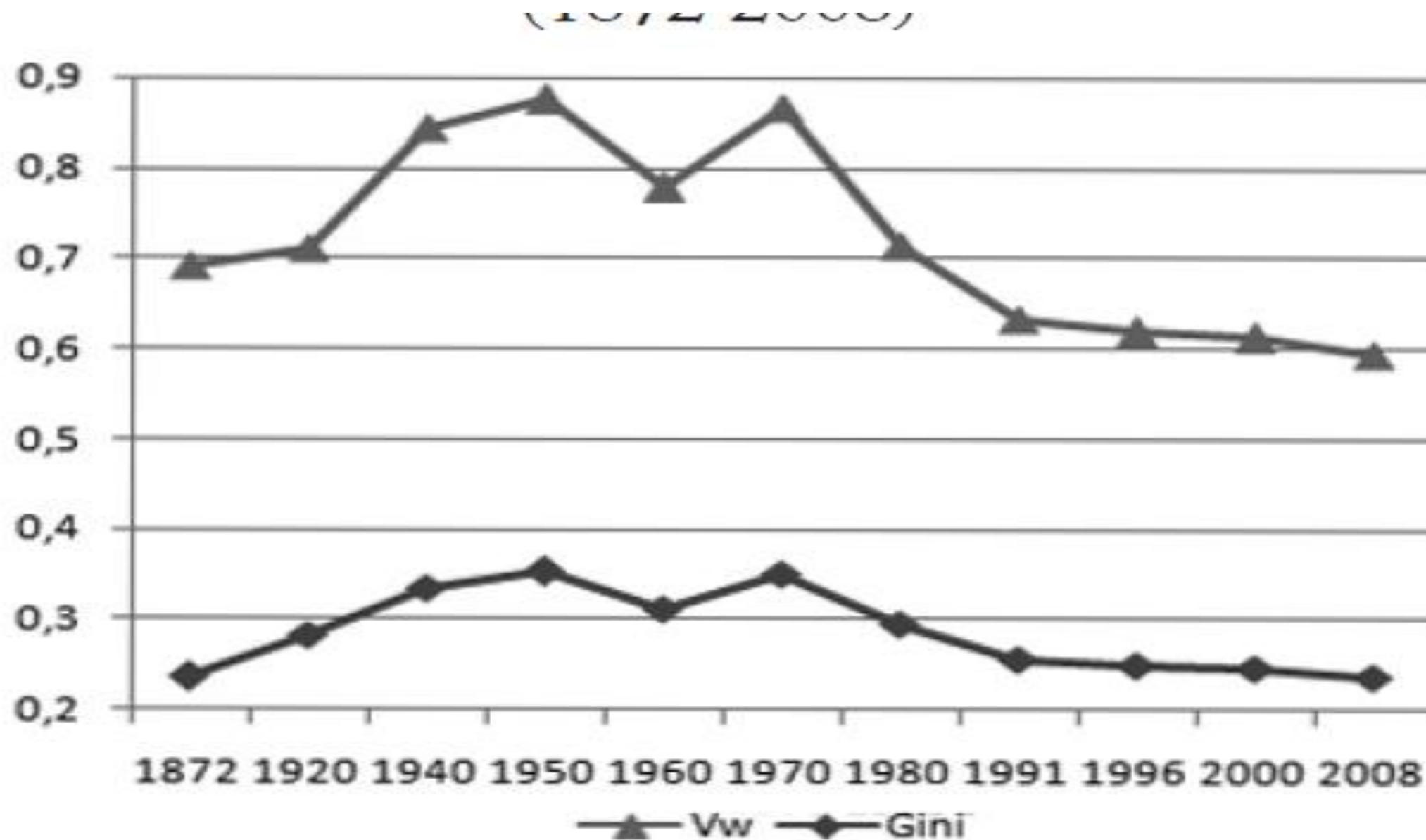


# Municipal GDP per capita (Y/P), 2000

Renda per capita dos municípios, 2000



# Regional Inequality evolution in Brazil – 1872-2008



# Inequality: a largely debated issue in Brazil

- High and persistent regional inequality led to the adoption of policies aiming at reducing them.
- Policies pursuing the reduction of spatial inequality are in place since mid-20<sup>th</sup> century.
- After the re-democratization, the 1988 Constitution included the reduction of spatial inequality as a general principle for economic activity, authorizing the federal government to use fiscal resources with this objective.

# Inequality: a largely debated issue in Brazil

- Three regional development funds (FNE, FNO, and FCO) were created by federal law n° 7827 in 1989, based on the Federal Constitution of 1988.
- It allocates 3% of income tax (from individuals and corporates), as well as the tax on industrialized goods (IPI) from the National Treasury to the regional development funds, managed by state-owned regional banks.
- Of the total annual amount, 60% goes to the Northeast, 20% to the North and 20% to the Center-West

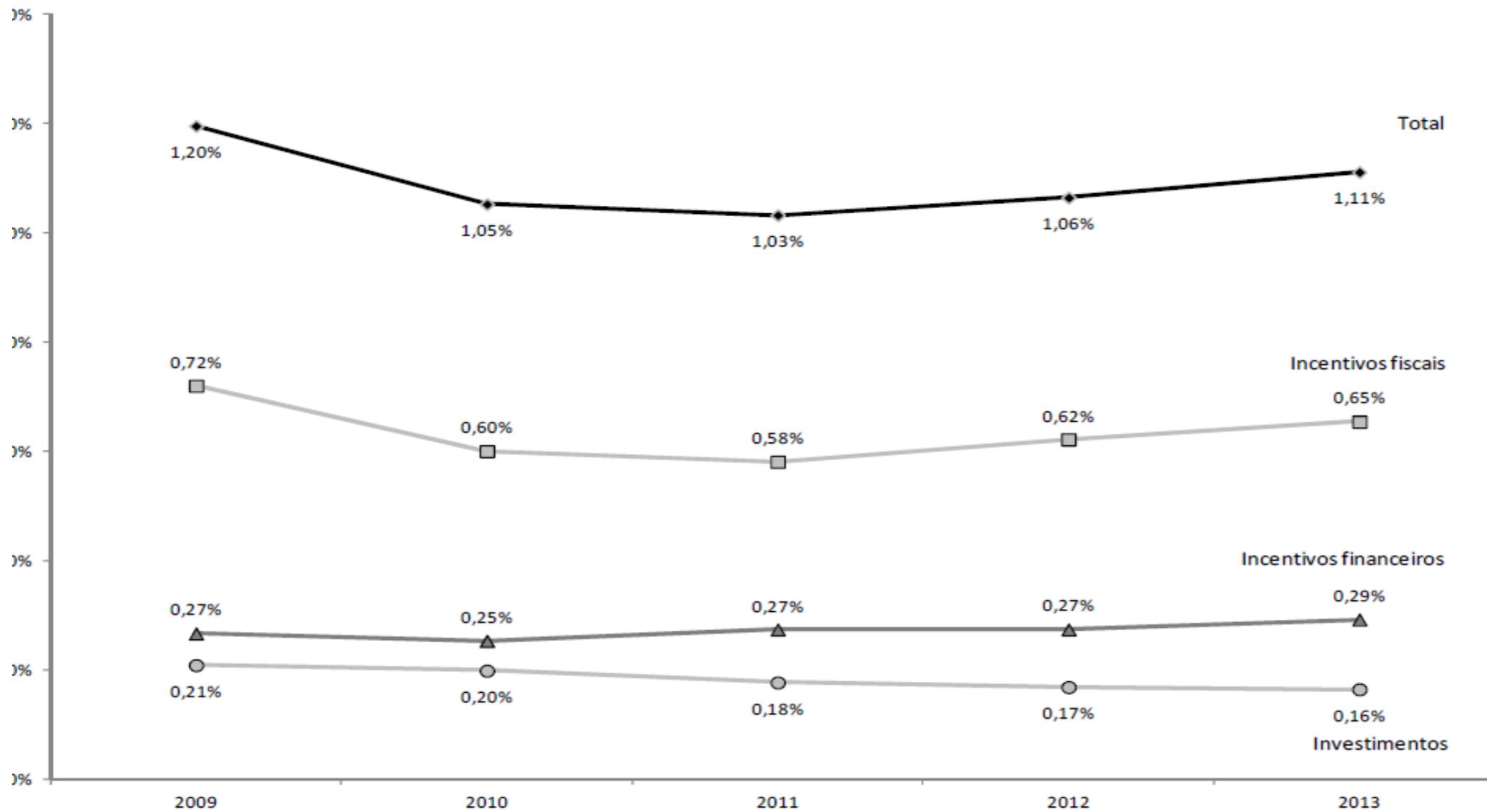
# Inequality: a largely debated issue in Brazil

- The goal of the FNE, FNO and FCO defined by the federal law is to reduce regional inequalities through the financing of productive sectors in those macro-regions
- The view (goes back to Furtado and ECLAC in the 60s) is that the market failures should be corrected via relative price distortions—subsidies, for example—which would help allocate resources more efficiently.
- The funds offer credit at low and fixed interest rates that vary depending on the size and sector (and region, in the case of the Northeast – Semi-arido)

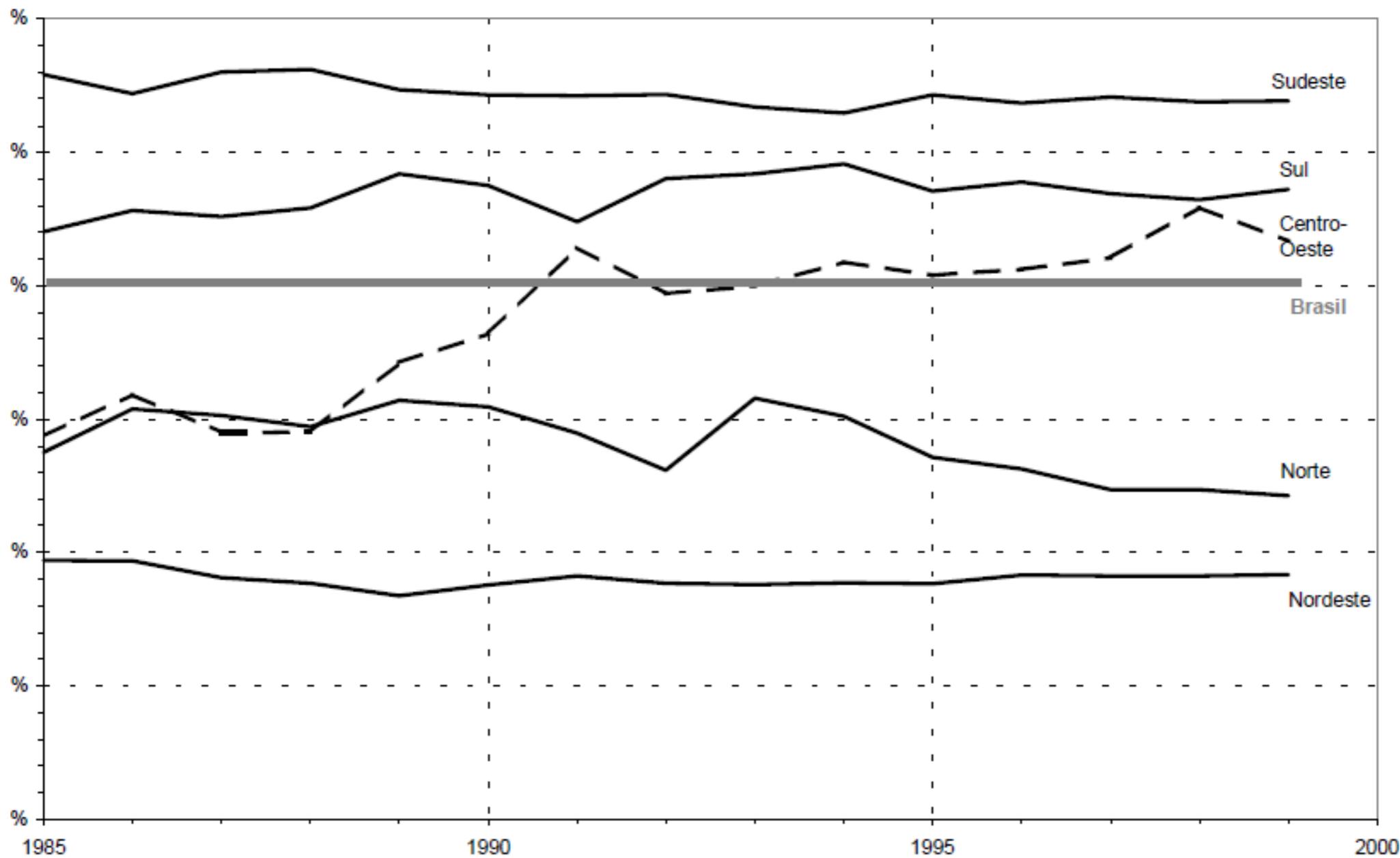
# Inequality: a largely debated issue in Brazil

- There are many other policies focusing on regional inequality. Among them the Manaus Economic Zone is perhaps the most important one. It is in place since the 60s, it grants tax exemptions for producers (not exporters) of appliances and durable goods. The tax exemptions have been recurrently extended, now until 2074!
- Several state owned banks, including the development bank, BNDES, have regional programs as well, focusing on the lagging regions, raising the issue of the fiscal cost of these programs.

# Fiscal costs of the regional policy reach non-negligible 1.1% of GDP, according to recent estimates



# Ratio Regional and National GDP per capita 1985-99



# Reduction in inequality in 1985-99 basically driven by within region reductions

	Theil-S	Theil - R	Av Theil -R	NE	SE
1985	0.1418	0.0952	0.0466	0.077	0.0361
1990	0.1407	0.1041	0.0365	0.0422	0.0411
1995	0.1339	0.1041	0.0298	0.0354	0.027
1999	0.1277	0.0991	0.0286	0.0363	0.0259

# Policy discussion

- The Brazilian government has been spending significant amounts of resources in regional development instruments.
- Jury is still out but results seem to be meager.
- Lack of significant results contrasts with recent positive outcomes in income distribution, with significant reductions in inequality.

# Policy discussion

- There has been intense academic debate about this in Brazil, with many authors arguing for a change in the focus of regional policy, from subsidy to physical capital accumulation to investments in human capital .
- Recently, Barros (2011) suggests that after controlling for differences in quantity (years of schooling) and quality of education and for cost of living, there would be no significant difference in GDP per capita between the Northeast and the Southeast region.

# Policy discussion

- The truth is that very few studies have attempted to evaluate the Brazilian regional development funds. Estimating the fiscal costs is a positive step.
- The absence of actions to change/refine these policy instruments contrasts with the dynamism of the Brazilian Federation, with sub national entities frequently experimenting new policies later adopted by other entities.