



OBSERVATÓRIO DAS  
DESIGUALDADES

# We need to talk about inequality.

This bulletin inaugurates the series of publications that the Observatory of Inequalities will make available to the public. The Observatory of Inequalities is the result of a partnership between the Regional Council of Economic of Minas Gerais and the João Pinheiro Foundation that aims precisely to contribute to the informed debate on the different faces of social inequality, the mechanisms that produce and reproduce it, and the ways to tackle it, disseminating and rendering more accessible the knowledge and information about this mark of our society that continues to challenge us over the years.

A recurring theme on the public agenda, the debate on inequalities arises in the most diverse environments. Discussions about inequalities are sometimes extremely heated, showing that we are dealing with issues that touch some of our most cherished values and passions. However, we do not always have enough information to autonomously form a consistent opinion about the challenges that inequalities pose to us in Minas Gerais, in our country, and, increasingly, to the possibilities of a dignified and peaceful existence in our world.

However, as inequalities increases, so do the voices that relativize their relevance,

stating, for example, that if the economy grows and everyone improves their material living situation or poverty decreases, the existence or magnitude of inequalities would matter little.

Therefore, in this first bulletin, we will address this question: Do we really need to discuss inequality after all? Are inequalities really a problem? Why?

## **Inequality, inequalities**

Inequality, poverty, and social mobility are very close notions, especially in our everyday language, but it is worth distinguishing them. Poverty, for example, usually describes a situation of deprivation. Although notions of relative poverty are occasionally used, the most common is that, in the case of poverty, it is considered an absolute condition. This means that, in most cases, poverty refers to a situation of deprivation – monetary, material, or related to access to essential services – that a person or a group experiences at a particular time. Being in a situation of poverty means that this individual or group is living without the basic conditions for a life considered worthy. There are several ways to measure poverty, standing out among them the establishment of an income level deemed necessary for a citizen or household not to be considered poor or the definition of particular basic

needs for a human being that, when not satisfied, characterize a situation of poverty.

Inequality is, in turn, relative. Broadly speaking, it may be understood from observations regarding the treatment given by society to the various groups that compose it. The more significant the difference between those with more power, money, privileges, access to services and fundamental rights, state protection, etc., and those with less, the greater the inequality. Thus, it is not a characteristic of a specific individual or household but is evaluated from how resources, recognition, opportunities, or well-being are distributed among the members of society.

Hence, reflecting on inequality implies addressing four issues. Firstly, inequality of what? Inequalities are many, and we may observe them in various areas of life: inequality of income, wealth, education, power, access to goods and services, the labor market, etc. Secondly, we must consider the following question: how much inequality? The more significant the difference between those in worse conditions and those who are better off, the more unequal the distribution of that resource. The third question is the following: inequality among whom? Are there groups or regions that are systematically in worse conditions? In Brazil, for example, we will almost always find substantial racial, gender, regional, and territorial inequalities, among others. Finally, there is a kind of question that is difficult to answer but critical: how? This is a matter of reflecting, on the one hand, on the social

processes and mechanisms by which inequalities are produced and maintained and, on the other hand, on what strategies are available to governments and society to tackle them. In this first bulletin, we will basically address income inequality because it is more intuitive to understand and because there are more complete and comparable international data in this regard. However, it is important to retain the notion that inequalities have many faces and vectors, with income being only one of them, albeit very important. In the following issues of the bulletin, other types of inequality will be addressed.

Upon measuring the degree of income concentration in a given group, the Gini Index also measures the degree of income inequality. The index ranges from 0 to 1, with 0 being a situation of complete equality and 1 being absolute inequality. However, caution should be exercised when analyzing these numbers since they may measure different situations. A country with a Gini Index close to 0 is characterized by having little income inequality, yet it may be poor or rich. In the first situation, the population would live at a certain level of equality in poverty, with similar precarious conditions. In the second situation, the population would live at a certain level of equality in wealth, with luxuries beyond basic needs.

### **Inequality versus social cohesion**

We may then face the question posed above: why do we need to discuss inequality and not just poverty or growth? This question

has two types of responses. The first type is a normative response and involves dealing with what our values are and our notion of what is fair and what is acceptable. This implies that we are faced with thorny (but necessary) issues, such as the following: choosing between a more cooperative or a more competitive society; whether we accept that the conditions and assets we inherit from our parents should or should not have a weight in our opportunities (and what such weight should be); whether or not we agree that inequalities of outcome (employment, income, choices, prestige) will be fair insofar as there are no significant inequalities of opportunity (adequate and equal conditions of access to and success in education, health, nutrition, or security and justice); whether, differently, we deem that very high inequalities of outcome are unjust because they violate the foundation that the prosperity of a society is always the result of a shared effort and that the very notion of citizenship and common destiny compromise the very legitimacy and sustainability of the social order. In other words, complex choices and debates that challenge our core values. These are topics that cannot be fully satisfied through scientific knowledge, although scientific knowledge may contribute to our choices and opinions being more informed.

There is, however, another reason for all of us to worry about the intense and multiple inequalities that characterize our country. It has been well demonstrated that the permanence of high levels of inequality compromises in various ways the functioning

of modern societies in areas as distinct as trust among citizens and the quality of economic growth. These effects are not always as noticeable when comparing short periods or variations within the same country. But the disruptive nature of inequality relative to the cohesion, coexistence, and prosperity of a society becomes clear when we compare countries with more information and modern economies.

Let's look at some examples. In a very provocative book, Pickett and Wilkinson (2009) analyzed vast scientific literature and comparative evidence among countries, demonstrating the adverse effects of inequalities on various dimensions of the quality of life, health, and psychosocial well-being. According to them, inequality causes, in the individuals of a society, feelings of dominance and subordination, superiority and inferiority that lead to harmful effects on social life. According to the authors, "where income differences are greater, social distances are greater and social stratification is more considerable," so are hierarchization and the importance of social status. In this sense, in very unequal societies, self-promotion, vanity, ostentation, and pride are more noticeable than modesty or empathy. The sense of collectivity is replaced by an individualistic way of life. The weakening of community ties is directly related to lower levels of trust among people, who come to see others as competitors on the social scale while simultaneously wanting to be valued by them.

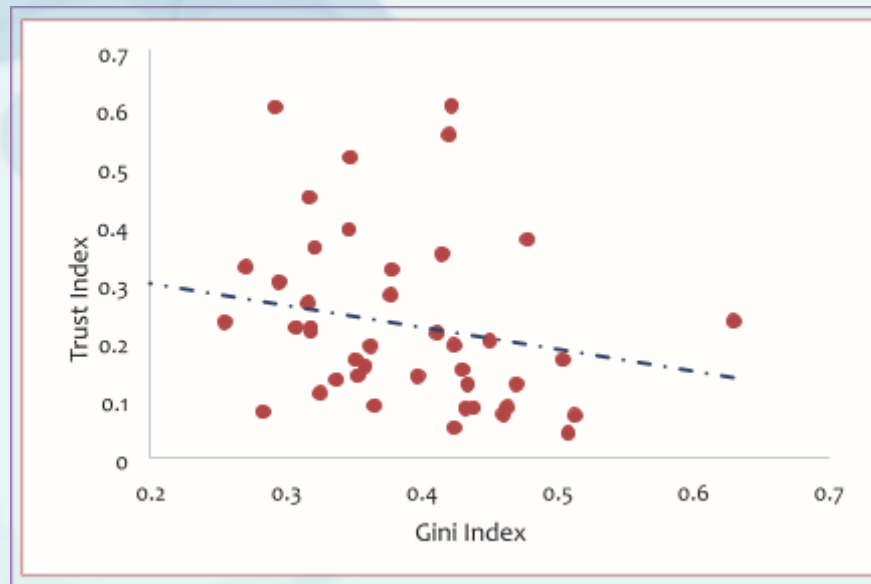
Inequality erodes trust and divides people. The quality of life and well-being of individuals are strengthened in less unequal societies. Trusting each other and maintaining a sense of community makes individuals feel less afraid of each other when walking through large cities or entering into business contracts. High levels of trust mean that people feel safer, worry less about being deceived by others, and see themselves more as cooperative than competitive, dramatically improving the relationships among the population. Confidence reduces tensions.

The sense of community perceived in less unequal societies makes its members more willing to donate their time to help each other. In addition, their individuals are more likely to believe in greater cultural sharing and value diversity. There is among them the belief that states are held together by shared values and that everyone must be treated with respect and tolerance. No wonder inequality separates people. Faced with the feelings of superiority and inferiority invoked

in individuals belonging to societies with high levels of inequality, there is a tendency, with cultural roots, to a more considerable approximation among individuals of the same social class, of the same color, and even of the same gender. It is difficult to find groups of diverse friends, made up of rich and poor, black and white, women and men in very unequal nations.

Chart 1 shows precisely this, quite intuitively. When comparing this selection of countries, this may be clearly observed – the trend line shows that, generally, the greater the inequality, the less trust people show in each other. This is despite the significant differences and social, economic, and political diversity among them. In more statistical language, one may state that knowing only the inequality of a country allows accurately predicting 30% of all the variation in interpersonal trust.

**Chart 1 – Relationship between the Gini Index and the Trust Index in selected countries**



Source: World Value Survey.

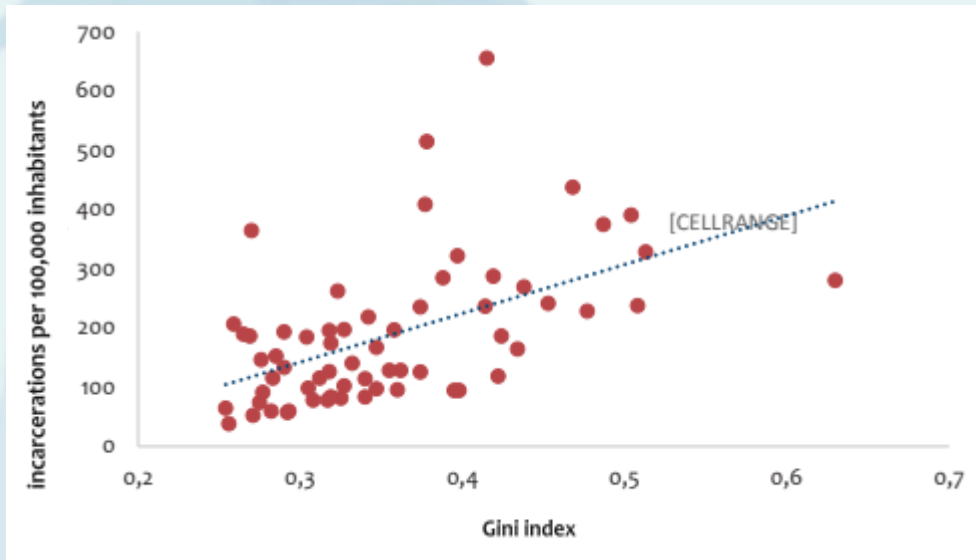
Selected countries: South Africa, Germany, Argentina, Armenia, Australia, Belarus, Brazil, Chile, China, Singapore, Colombia, South Korea, Egypt, Ecuador, Slovenia, Spain, United States, Estonia, Ghana, Georgia, Haiti, India, Iraq, Japan, Jordan, Malaysia, Mexico, Nigeria, New Zealand, Pakistan, Peru, Poland, Romania, Rwanda, Russia, Sweden, Thailand, Tunisia, Ukraine, Uruguay, Uzbekistan, Zimbabwe.

A society in which everyone distrusts everyone and others are seen as rivals or, even worse, threats is a conflagrated society in which fear, force, violence, or repression become part of people's everyday lives. This seems to be the fate of many unequal societies. There is quite a consensus when assessing the most durable differences among countries – and less the short-term or temporary fluctuations in the same country – that high levels of inequality undermine the

foundations for peaceful and cooperative coexistence among citizens.

Indeed, violence rates tend to be higher in more unequal societies. This relationship is maintained even when other possible influences are considered, such as the low income, unemployment, demographic profile, and age of the population.

**Chart 2 – Relationship between the Gini Index and the homicide rate per 100,000 inhabitants in selected countries**



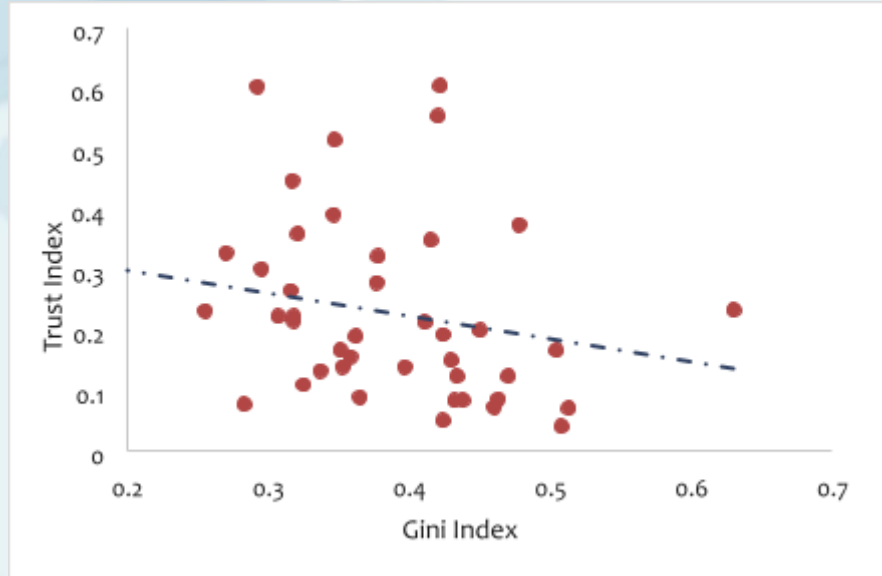
Source: Institute for Criminal Policy Research (ICPR).

Selected countries: South Africa, Albania, Algeria, Germany, Argentina, Australia, Austria, Belarus, Belgium, Brazil, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Slovakia, Slovenia, Spain, United States, Estonia, Finland, France, Greece, Netherlands, Hungary, Iceland, Indonesia, Iran, Ireland, Israel, Italy, Kazakhstan, Latvia, Lebanon, Lithuania, Luxembourg, Malta, Mauritius, Mexico, Mongolia, Montenegro, Norway, Panama, Peru, Poland, Portugal, United Kingdom, Romania, Russia, Serbia, Seychelles, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, and Uruguay.

Chart 2 also illustrates this point visually: when comparing several countries, one may observe that as inequality (measured in terms of income by the Gini Index) becomes higher, the homicide rate increases significantly. Depending on the statistical strategy used, knowing only the Gini Index (i.e., income inequality) of the countries allows for accurately predicting from 50% to 70% of the distribution of homicides among them.

But the consequences are not only these. In very unequal societies, where mistrust is widespread – if there are minimally structured states and public administrations – the response to conflict and violence will generally be more force and repression, mainly directed at the most vulnerable groups. Thus, unequal societies tend to be not only societies in which there is much killing and death but also societies in which one imprisons indiscriminately.

Chart 3 – Relationship between the Gini Index and Trust Index in selected countries



Source: United Nations Office on Drugs and Crime (UNODC).

Selected countries: South Africa, Albania, Algeria, Germany, Argentina, Australia, Austria, Belarus, Belgium, Brazil, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Slovakia, Slovenia, Spain, United States, Estonia, Finland, France, Greece, Netherlands, Hungary, Iceland, Indonesia, Iran, Ireland, Israel, Italy, Kazakhstan, Latvia, Lebanon, Lithuania, Luxembourg, Malta, Mauritius, Mexico, Mongolia, Montenegro, Norway, Panama, Peru, Poland, Portugal, United Kingdom, Romania, Russia, Serbia, Seychelles, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, Uruguay.

Different countries have different criminal laws, prison policies, and abilities to incarcerate. However, one may still notice that, in general, the greater the inequality, the more significant the proportion of inhabitants incarcerated in a country. One may say that the Gini Index allows predicting from one-quarter to one-third of the incarceration rate among countries, even taking into account the homicide rate of each country, which is no small thing.

In other words, we exemplify how inequality has very profound consequences on social life; we show how high levels of inequality compromise the possibilities of a cooperative and peaceful coexistence among

people. But these consequences seem to go further, reaching, for example, the economy. There has always been controversy in economic studies about the complex relationship between inequality and economic growth. Some say there would be a tragic choice to be made between growth and distribution, between equity and efficiency, given that even if inequality were harmful to the economy, redistribution through taxes and transfers would be even more harmful.

However, the more recent and more complete studies on the behavior of the economy in unequal countries are pointing in a different direction, which is that inequality



tends to have detrimental effects on the very quality of the economy. For example, a recent work published by the IMF comparing the behavior of the economy of several countries stated that there is a negative effect of inequality on economic growth when looking at the medium and long term; in addition, countries with high inequality tend to experience shorter periods of economic growth, i.e., inequality renders growth less sustainable; lastly, no evidence has been found that redistribution through taxes and transfers negatively affects economic growth.

What we seek to show from these examples is that, in addition to the profound debates about if, which, how much, and to what extent inequalities themselves are acceptable or not, fair or unfair, there is sufficient scientific knowledge to affirm that

high levels of inequalities compromise the possibilities and sustainability of a cooperative, peaceful, and prosperous society.

### **Income inequality in Brazil: the photo and the film, or situation and trajectory.**

But, by now, readers may be wondering about Brazil: How are we in this story? As could be noticed in Charts 1, 2, and 3, Brazil has one of the highest income inequalities in the world. This is consensus, although we find some variation in the intensity of inequality depending on how it is measured. In Chart 4, one may observe more closely the position that Brazil occupies regarding income inequality measured by the Gini Index.

Chart 4 – Gini Index around the globe



Source: World Bank.

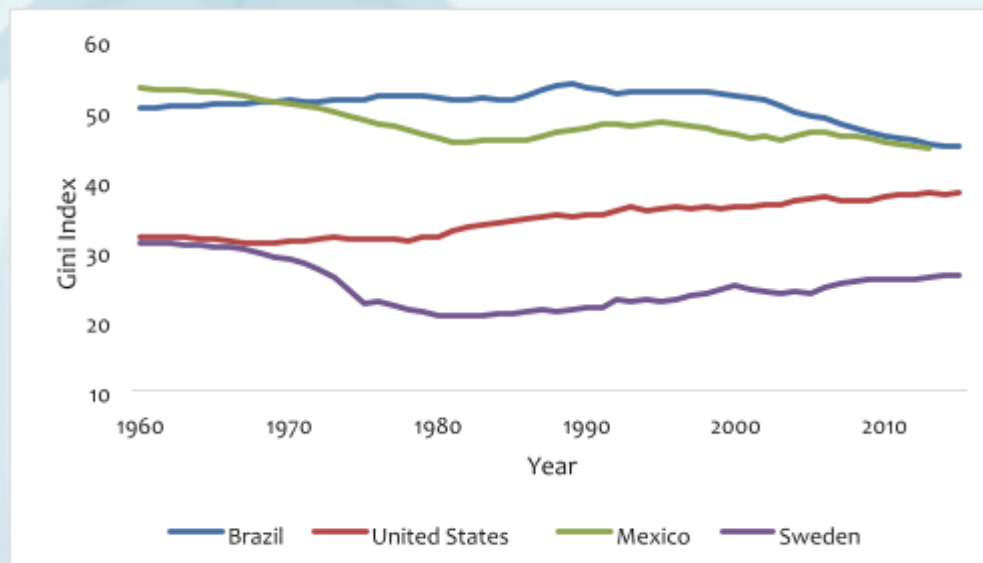
Note: the latest indices available for each country, ranging from 2010 to 2016, were used to compose Graph 4.

When Chart 4 exposes the Gini Index of several countries, the severity of income inequality in Brazil is again evident. When it comes to this index, Brazil is poorly positioned not only in global terms but also when compared to other Latin American countries, Brazilian neighbors that have experienced social formation processes more similar to ours. Perhaps even more relevant, however, is to note that in all regions of the globe, there are countries with very different levels of inequality. This holds an important lesson: that inequality is not a condemnation

or a fate, but the result of choices and conditions that societies make, the result of history.

To better understand and situate the status of Brazilian inequality, it is also essential to analyze the Gini Index from a temporal perspective. This allows us to visualize the trajectory of income inequality in our country over the years. See Chart 5, which compares Brazil and some countries over time:

Chart 5 – Gini Index over the years in selected countries



Source: Standardized World Income Inequality Database (SWIID).

In the case of Brazil, the drop in the Gini Index since the early 2000s is evident. The sharp reduction in inequality in recent years contrasts with the stability of this index at very high levels in previous periods, which actually date back at least to the 1960s. On the other hand, we see in developed countries, such as the United States and Sweden, or in Mexico, which is more similar to us, very different levels and trajectories of income inequality since the 1960s, which shows that inequality is not a necessity, nor does it present a single trend, but is the result of contexts and choices that societies make.

The ongoing economic, social, and political crisis in Brazil has produced a reversal in the trajectory of reducing inequality that the country had been

experiencing, according to recent work by Marcelo Néri from the Center for Social Policies of the Getúlio Vargas Foundation. According to the analysis, which focuses on labor income, since 2015, there has been a sharp drop in the income of workers, especially the youngest, and a severe increase in labor income inequality. In fact, according to the text, income inequality will complete in 2018 three consecutive years of high, which has not occurred since 1989. In other words, the situation has gotten worse for everyone and even worse for the most vulnerable. The leading causes are unemployment and casualization of work, economic recession, and paralysis or setback in several social policies that favored the

income and well-being of the poorest. In other words, public conditions and choices.

Making a brief summary of what we have discussed so far:

a) Although, in our day-to-day and

in the current language, we refer more often to "inequality", the correct thing would be to say "inequalities" because this is a multifaceted notion and manifests itself in various forms in different spaces of social life, also reaching in a distinct and combined way various groups, segments, and regions.

b) Regardless of what one thinks about inequalities in terms of justice or values, there is a consensus that high levels of inequality have far-reaching consequences on social life, compromising the possibilities of a cooperative, peaceful, prosperous, and sustainable coexistence.

c) Inequalities are not fate or necessity, and they vary strongly among countries and also over time. Their trajectory and magnitude may be modified for better or worse by public policies and political, economic, and social choices.

d) Brazil has very high levels of inequality, which have remained little changed during almost the entire second half of the last century, despite the intense economic, social, and political transformations that the country has gone through. The beginning of this century marked the start of a change in this trajectory. Democratization has favored spaces and pressure for redistribution, both of income and, as we will see in future editions, in other fields of rights, policies, and access to goods and services, which have had real impacts on reducing income inequality in the country.

## References

WILKINSON, Richard; PICKETT, Kate. **O Nível:** Por que uma sociedade mais igualitária é melhor para todos. Rio de Janeiro: Civilização Brasileira, 2015.

SOLT, Frederick. 2016. "The Standardized World Income Inequality Database." *Social Science Quarterly* 97. SWIID Version 7.1, August 2018. Disponível em: <<https://fsolt.org/swiid/>>. Acesso em: 29 ago. 2018.

UNU-WIDER, "World Income Inequality Database (WIID3.4)". Disponível em: <<https://www.wider.unu.edu/database/world-income-inequality-database-wiid34>>. Acesso em: 22 ago. 2018.

Inglehart, R., C. Haerper, A. Moreno, C. Welzel, K. Kizilova, J. Diez-Medrano, M. Lagos, P. Norris, E. Ponarin & B. Puranen et al. (eds.). 2014. World Values Survey: Round Six - Country-Pooled Datafile Version: < <http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp> >. Madrid: JD Systems Institute. Acesso em: 27 ago. 2018

NERI, Marcelo. **Qual foi o Impacto da Crise sobre Pobreza e Distribuição de Renda?** FGV Social, 2018. Disponível em: <[https://www.cps.fgv.br/cps/bd/docs/NOTA-CURTA-Pobreza-Desigualdade-a-CriseRecente\\_FGV\\_Social\\_Neri.pdf](https://www.cps.fgv.br/cps/bd/docs/NOTA-CURTA-Pobreza-Desigualdade-a-CriseRecente_FGV_Social_Neri.pdf)>. Acesso em: 10 set. 2018.

BANCO MUNDIAL. World Development Indicators Database. World Bank, July 2003. Disponível em: < <https://data.worldbank.org/> >. Acesso em: 15 ago. 2018.