STAGNANT COUNTRY

A PORTRAIT OF BRAZILIAN INEQUALITIES

2018

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ABOUT THIS REPORT

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FOREWORD

Our Federal Constitution, the most important tool in the history of Brazil for reducing inequalities, has been in effect for 30 years. Unfortunately, this milestone is not worthy of any celebration in the present context. On the contrary, we see important accomplishments being dismantled, presaging increased poverty and inequality in our country.

According to a 2017 Oxfam Brasil/Datafolha opinion poll, nine out of every ten Brazilians share the perception that the country is very unequal. In order to face this situation, the poll shows that Brazilians believe that what is needed is increased job supply and public investment in public policies, coupled with a tax reform. There is, however, a mismatch between expectations and reality.

Discussions over the quality and progressivity of social spending have come to a halt. The debate over a tax reform guided by economic growth and inequality reduction has been blocked. The fiscal crisis the country has come to prompted a package of measures that is disconnected from the bigger constitutional mission, which is the correction of historical inequalities and the inclusion of those excluded: the black population, women, and minorities.

In 2017, Oxfam Brasil released its first report on Brazil's inequalities – "The divide that unites us". In it, we portrayed, based on up-to-date data and time series, some of the country's main inequalities, with a focus on income, wealth, and the distribution of essential services. We came down to six themes that are pivotal to reducing inequalities: the tax system; social spending; education; discrimination; the labor market; and access to democracy.

The report "**Stagnant Country: A portrait of Brazilian inequalities 2018**", herein, continues the previous debate and deepens analysis of two fundamental issues: taxation and social spending. It tells two stories –one about the stagnation of the process adopted to reduce inequalities, and the other about the course of our fiscal policy and its effects on income distribution. And what the report reveals challenges us.

Brazil, for the first time in many years, sees its income distribution come to a halt. Poverty in the country has intensified. The dynamic that led to the convergence of women's and men's incomes came to an end – the first retrogression in 23 years. Equal pay between blacks and whites also fizzled out, and is now in its seventh year of stagnation. These are unacceptable retrogressions, especially in a country where women and blacks are the demographic majority.

As regards the fiscal issue, we showed how the tax system –half neutral, half regressive– further exacerbates inequalities of income, race, and sex. Moreover, we identified that the adoption of certain legislative measures toward a tax reform could have a major, and short-term, impact on reducing inequalities.

Looking at social spending, much needs to be done. Improvements can be achieved by improving the quality of expenditure in general (transparency, progressivity, and effectiveness). Revoking the "Spending Cap", a constraint to reducing structural inequalities in Brazil again, is also urgent.

Lastly, if economic crises bring a lesson, this is that it is not possible to ensure the exercise of rights without fiscal responsibility. At the same time, social crises teach us that we cannot afford to leave the fight against inequalities out of the country's fiscal equation– a condition for Brazil to have a strong economy, a fair society, and a long-lasting democracy.

With this report, Oxfam Brasil wishes to speak of the country's stagnation in reducing the gap between rich and poor, and of a lack of measures necessary to meet this challenge. This is the project that was agreed upon by those who drafted the Citizen Constitution of 1988, a project that, at times, seems to be forgotten by the country's decision-makers. This project must be continued for the sake of a cause that must always unite Brazilian society –the reduction of inequalities.

Katia Maia
Executive Director

Oded Grajew
Chair of the Deliberative Council

Paulo Pereira // Oxfam Brasil

INTRODUCTION

The wheel of inequality reduction stopped in Brazil. Between 2017 and 2018, there was a conjunction of negative indicators that tell the sad story of a serious retrogression of social progress in the country. These are recent portraits of a process that began long before and shows no sign of reversal.

Taking into account the last five years, there was an increase in the share of the population vulnerable to poverty,[1] of the level of labor income inequality,[2] and of infant mortality rates.[3] The Gini index, a measure of a country's household income inequality, which had been falling since 2002, stagnated between 2016 and 2017.[4]

Considering the Sustainable Development Goals – SDG 10, which advocates "reduc[ing] inequality within and among countries",[5] Brazil is making great strides backwards.[6] Between 2016 and 2017, the income variation of the poorest 40% was worse than the national average,[7] running counter to target 1 of SDG 10.[8] Over the same period, women and the black population were worse off in terms of income performance than men and the white population, respectively,[9] which entails a rollback toward income equalization – and runs counter to goal 10.2.[10] Targets 10.3 and 10.4[11] also slid back with the passage of legal frameworks that undermine equal opportunity for the majority of the population and hinder the ability of fiscal policy to reduce inequalities.[12]

This setting is the sign of the economic, fiscal, and political crisis we have been experiencing since late 2014. Since then, there has been a downturn in national income,[13] a by-product of the recession that nearly doubled unemployment in the country, from 6.8% in 2014 to 12.7% in 2017.[14] This downward movement affected foremost the poor, women, and the black population.[15]

A critical point for understanding and solving the recent Brazilian crisis is the situation of the government's accounts. The debt-to-GDP ratio has been growing at least since 2011, more markedly in 2015 and 2016.[16] The new post impeachment government adopted severe measures to correct this trajectory, measures which have failed to consider the importance of public policies aimed at social inclusion.

The main adjustment policy approved in this period was Constitutional Amendment 95, which instates the "New Fiscal Regime", known as "Spending Cap".[17] On one side, such measure creates unclear limits for expanding expenses within the Brazilian Executive, Legislative, and Judiciary branches.[18] On the other, it fosters competition within the Executive branch for the existing budget accounts, as it makes social expenditures[19] compete with each other and with other federal expenditures, such as investments in infrastructure or the civil service payroll. Its ultimate effect is that of reducing the size of public spending in relation to the GDP, while the population grows and ages.[20]

However, while this extreme measure to control expenditure was passed, nothing was done to address Brazil's profound tax injustice. Over this period, despite some attempts by the government and Congress to carry out a tax reform,[21] it was unlikely that it would fix the current distortions that further accentuate inequality.[22] In the end, no significant change was approved, and the country still has a tax burden that is based on goods and services (about half of all that is collected), as opposed to a reduced tax burden on income and wealth (23% of tax collection).[23] Nor was there any consideration for reviewing tax-based expenditures and exemptions, notably those of a regressive nature.

The response so far to this moment of crisis has been counter to what we have learned about fiscal policy for inequality reduction. While social spending –extremely important to protect the base of the pyramid[24] – was reduced, revenues remained that are based on a tax system that further burdens this base. This report will focus on this issue.

The document is divided into three parts. In part 1, we analyze the state of inequalities in Brazil in light of the latest data on income available up to October 2018.

In part 2, we discuss the fiscal agenda in relation to inequalities: features of our tax system, our social spending, and their effects on income distribution.

Lastly, in part 3, we propose a working agenda focused on these topics, ultimately aiming at the country's inclusive and redistributive development.

André Teixeira / / Oxfam Brasil

1.

STATE OF BRAZILIAN INEQUALITIES

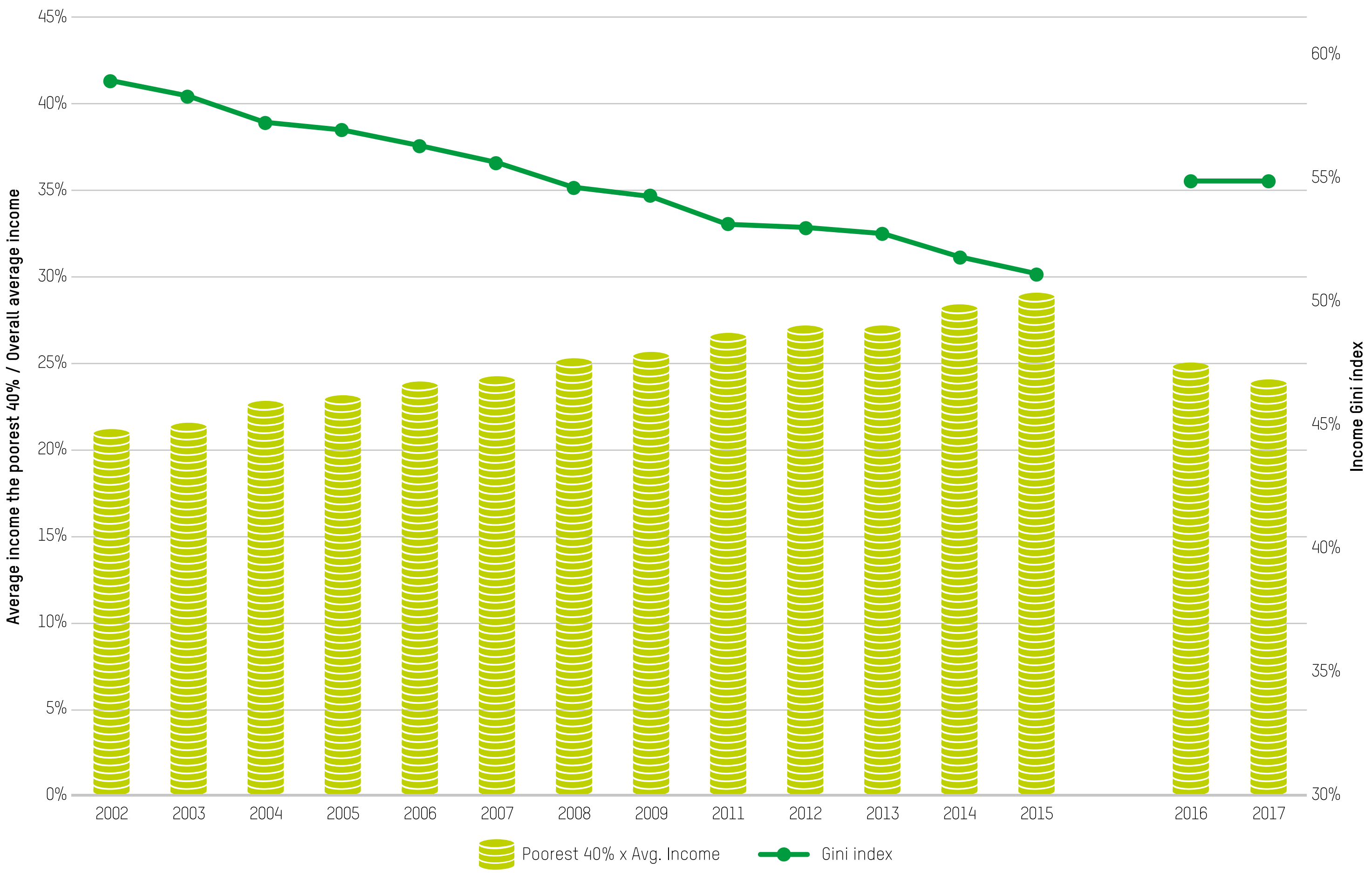
2017 OVERVIEW

In 2017, Brazil stopped reducing inequalities. Since the promulgation of our Constitution in 1988, the country sought, during part of the time, to reduce the gap between the top and the base of the social pyramid, especially by improving the living conditions of the poorest. Universal public services and social security,[25] stabilization of the currency,[26] educational inclusion during part of the 1990s,[27] the expansion of social spending and programs in the 2000s,[28] appreciation of the minimum wage,[29] and favorable economic cycles paved the way to social accomplishments, now blocked.

Since 2002, the Gini index for household income per capita,[30] as measured by the National Household Sample Survey (PNAD), had systematically fallen year-on-year, a trend that is not observed between 2016 and 2017.[31] Last year, also for the first time in the last 15 years, the ratio between the average income of the poorest 40 percent and total average income was unfavorable to the base of the pyramid.[32] This is shown in **Graph 1**.

// GRAPH 1.

Brazil - Gini index of income inequality and income of the poorest 40% as a proportion of the 2002-2017 national average.



Sources: Ipeadata with data by the annualized IBGE/PNAD (2002 to 2014); the 2015 IBGE/PNAD survey (calculations by Oxfam Brasil), and the2016 and 2017 Continuous IBGE/PNAD (annual, all earnings).

Note: It is not possible to link the annualized PNAD series (2002 to 2015) to the Continuous PNAD (2016 and 2017).[33] Therefore, it is not possible to provide a single time series for the Gini index and to calculate income variation between 2015 and 2016.

Other elements further aggravated this situation.

For four years, inequality derived from 'habitual' labor income (that is, only considering one's main wage) has been growing,[34] as the share of poor people regressed to 2012 levels.[35] The income of the black population in Brazil in relation to the white population has practically stagnated since 2011,[36] and the gender pay gap regressed between 2016 and 2017.[37]

Over these two years, Brazil remained at the same level in the Human Development Index (HDI), at 0.743,[38] and ranked 79th by the United Nations Development Program (UNDP), out of a total of 189 countries. The indicator with the highest negative impact on the Brazilian HDI was income, given its recent downturn, especially in the lowest brackets.[39] A global comparison of income inequality, showed that in 2017 Brazil fell from tenth to ninth most unequal country on the planet.[40]

"IT IS THE FIRST GINI STAGNATION IN 15 YEARS"

In 2016, for the first time since 1990, Brazil recorded an increase in its infant mortality rate, which rose from 13.3, in 2015, to 14 deaths for every 1000 live births (4.9% higher than in the previous year[41]). Additionally, poverty escalated in the country, a portrait of injustices that, not long ago, were on their way to being overcome.

By the World Bank's baseline criterion of USD 1.90 per person a day, there were about 15 million poor people in the country in 2017, 7.2% of the population, an 11-percent growth in relation to 2016, when there 13.3 million poor people (6.5% of the population[42]). This is the third year in a row this rate goes up, a trend that began in 2015.

Brazil is, by World Bank criteria, an Upper-middle Income Country, a group of countries whose weighted poverty line[43] is estimated at USD 5.5 per person a day. By this criterion, today more than 22% of Brazil's population lives in poverty, or 45 million people, instead of 13 million by the World Bank's USD 1.90-a-day criterion.[44]

In short, 2017 was a year of terrible news for inequality reduction in Brazil, with a most likely consolidation of an unprecedented historical regression.

2017 OVERVIEW

Stagnant income per capita Gini index

Wider gender pay gap

Poorest 40% poorer than average

Wage gap between blacks and whites widens

Increased poverty

Increased infant mortality

Brazil from 10th to 9th most unequal

2016-2017 INCOME INEQUALITIES

According to the IBGE, in 2017 about 60% of the total population (124.6 million people) had some earnings.[45] Most of the Brazilians' income, 73.8%, was derived from labor, and another big portion, 19.4%, from retirement or pensions.[46] The remainder was distributed into proceeds from rental and leasing (2.4%), alimony, donation, or allowance (1.2%), or other earnings (3.3%).[47] With slight changes, these ratios are the same as in 2016.

In 2017, the monthly average income per capita measured by household survey Continuous PNAD was BRL 1,268.00,[48] a drop of 2.7% in relation to 2016's BRL 1,303.12.[49] Between 2016 and 2017, the Gini index measuring the per-capita household income gap remained stable, at 0.549,[50] in contrast with the fifteen preceding years, when it had always fallen year-on-year.[51] This index is important because it reflects the level of income concentration, particularly of labor income, but also including earnings not derived from labor such as retirement, pensions, proceeds from rents, and other benefits and sources.[52]

Considering only the population older than 20 with some source of income,[53] it becomes evident that the base of the pyramid has lost more, the poorest decile even more so. As for earnings from all sources of labor, the loss between 2016 and 2017 amounted to more than 11% for the poorest 10%, further dropping to 9% when all income deciles are considered.[54] In 2017, total average income of this poorest group was only BRL 198.03 per month, thus below the World Bank's poverty line.[55]

In general, the poorest half of the population suffered a 3.5% contraction of their earnings from labor (stemming by the (still) rising unemployment at the time) and a 1.6% decline when all earnings are considered.[56] In 2017, the average income of the poorest half was BRL 787.69, or less than a minimum wage.

The smaller declines in earnings of the poorest, when total earnings are contrasted with all labor incomes, show the importance of the State in reducing the impact of economic crises, as these tend to hit the poorest harder. A different situation can be seen at the top of the pyramid. The 10% richest Brazilians with some source of income experienced a growth of almost 6% in their labor income[57] – 2% if all earnings over the same period are considered. Based on data from the 2017 Continuous PNAD, the total average income of the richest decile was BRL 9,519.10, roughly 10 minimum wages per month (and BRL 9,324.57 in 2016).

There is an important difference between the household survey findings and the data disclosed by the Secretariat of the Federal Revenue (SRF) in 2015, based on the personal income tax returns (IRPF, from the Portuguese acronym).[58] Considering data from the IRPF, the monthly average income declared in 2017 (2016 calendar year) by the richest 10% in Brazil was higher than BRL 13,000.00.[59]

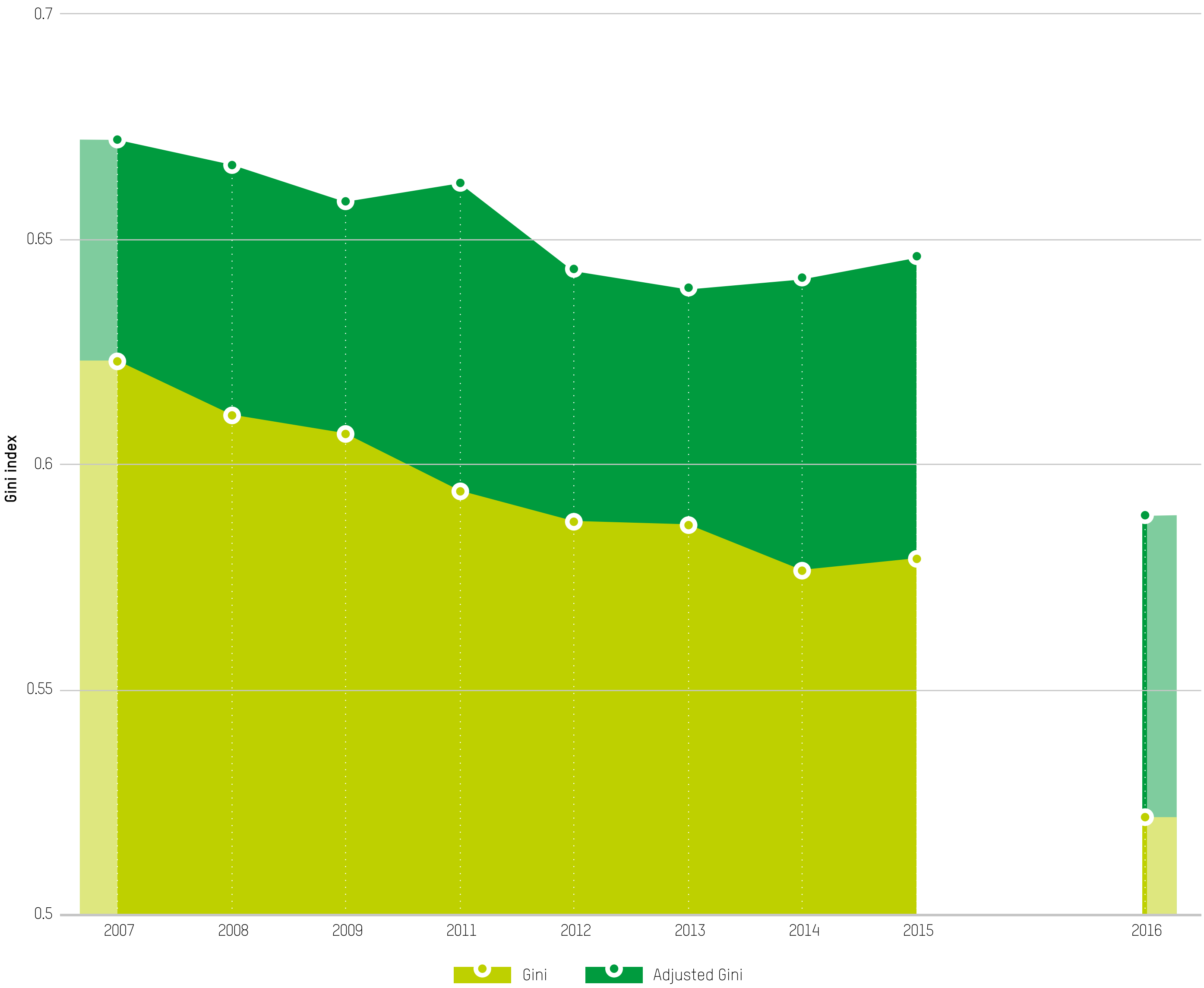
The richest 10%, however, are quite unequal among themselves. Of the more than 12 million Brazilians whose income is in this category, 75% earn up to 20 minimum wages of taxable income –more than half of them earn up to 10 minimum wages.[60] Moreover, the grouping of roughly 1.2 million people that make up the richest 1% of the country earns average incomes exceeding BRL 55,000.00 per month.[61]

National statistics office IBGE estimates that the monthly average earnings of the richest 1% are 36.3 times higher than the average earnings of the poorest 50%.[62] Considering IRPF tax return data, this ratio would go up to 72 times.

Among the countries with tax data available, Brazil continues to be one of those who concentrate most of the income at the top.[63] Income distribution forecasts considering tax-related data to "correct" that which the surveys cannot capture, for example how much the rich earn, point to an income gap that has been stable for many years.[64] **Graph 2** shows that, by this criterion, our income distribution has been stagnant since 2012.

// GRAPH 2.

Brazil - Gini index of income inequality as measured by household survey PNAD and adjusted by IRPF personal income tax data (2007-2016)



Source: Prepared by Oxfam Brasil, based on PNAD survey and individual IRPF income tax returns[65].

Note: Gini coefficients were estimated on the basis of total individual earnings of adults aged 20 years-plus, allowing for the interpolation of IRPF personal income tax return data.

RACIAL INCOME INEQUALITY

Income inequalities between racial groups have increased over the last two years. While in 2016, blacks earned BRL 1,458.16 on average, or 57% of the average earnings of whites, estimated at BRL 2,567.81,[66] in 2017 black people's average earnings were BRL 1,545.30 –or a lower share of whites' earnings, a mere 53%– as opposed to white people's earnings of BRL 2,924.31.[67] The share black Brazilians have earned over the last seven years has not exceeded 57% of what whites have earned, a long stagnation that began in 2011.[68]

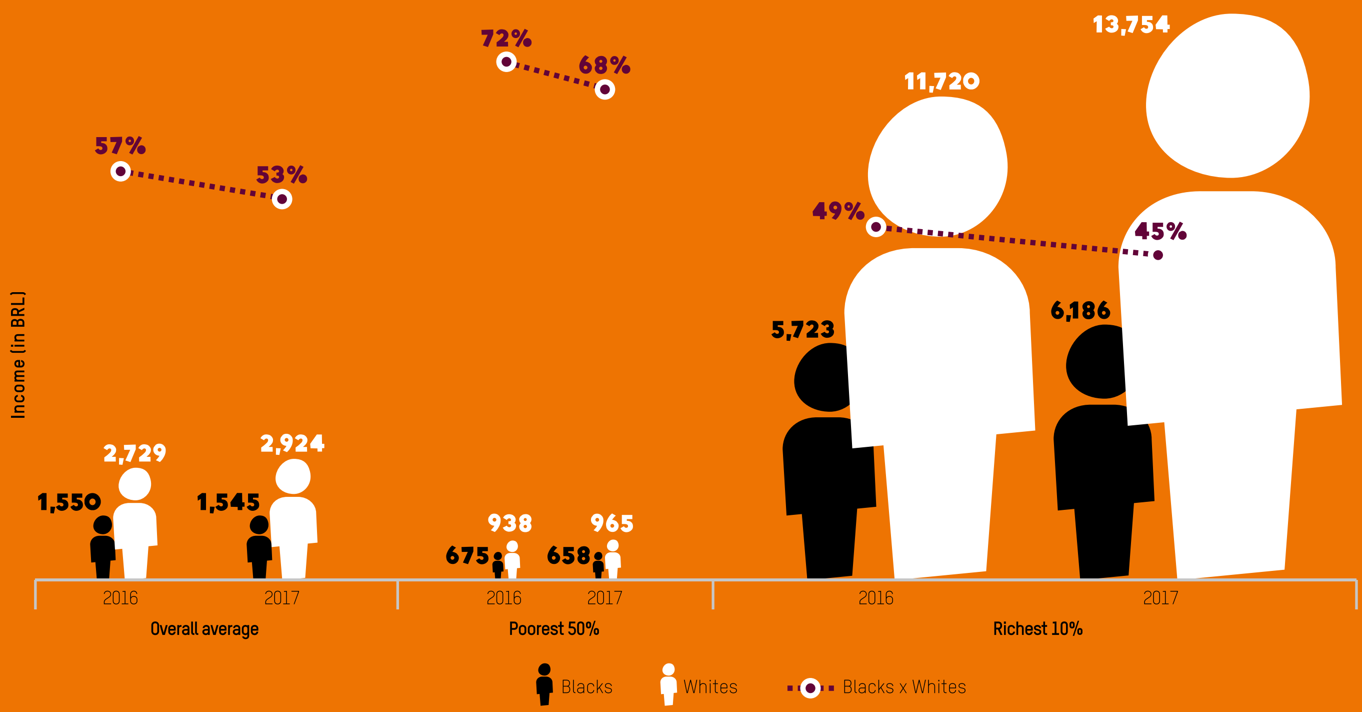
As a result, racial inequalities are visible within specific income strata. The overall income average of the poorest half of the population was BRL 749.31 in 2016,[69] while poor whites earned, on average, BRL 882.23 and poor blacks, BRL 634.66[70]. In 2017, the overall average for this poorest grouping was BRL 804.35, though whites in the poorest half earned BRL 965.19, as contrasted with BRL 658.14, the average income of the blacks in the poorest half.[71] Over this period, poor blacks became even poorer as their income decreased by 2.5%; whites, however, went in the opposite direction, increasing their income by nearly 3%.[72]

> "SINCE 2011, INCOME EQUALITY FOR BLACKS HAS STAGNATED"

Similarly, among the richest 10%, whites earned BRL 11,026.36 per month in 2016, while blacks earned BRL 5,384.00,[73] less than half, or about 49%, of what whites earned. In 2017, this gap was exacerbated, with whites earning BRL 13,753.63 in contrast with a black person's monthly average income of BRL 6,186.01,[74] or 45% of what a white person in this decile earned. Between 2016 and 2017, blacks in the richest decile increased their income by 8.10%, less than half of the 17.35% increase enjoyed by the richest white population.[75] These disparities can be seen in **Graph 3**.

// GRAPH 3.

Brazil – Blacks' and whites' incomes and average income variations between blacks and whites in the poorest 50% and the richest 10% strata (2016-2017)



Source: Prepared by Oxfam Brasil, based on data by 2016 and 2017 Continuous PNAD.

Note: 2016 values were adjusted by that year's consumer price index IPCA. The black population includes blacks, browns, and indigenous people, in keeping with IBGE classification IBGE. Values were rounded off.

GENDER INCOME INEQUALITY

The income gap between women and men was reflected in the UNDP's latest Brazilian HDI update, showing a coefficient of 0.761 for men and 0.755 for women.[76]

In fact, the gender income gap also rose over the last two years. According to Continuous PNAD survey data, women earned about 72% of what men earned in 2016, with a further drop to 70% in 2017.[77] This is the first decline in 23 years.[78]

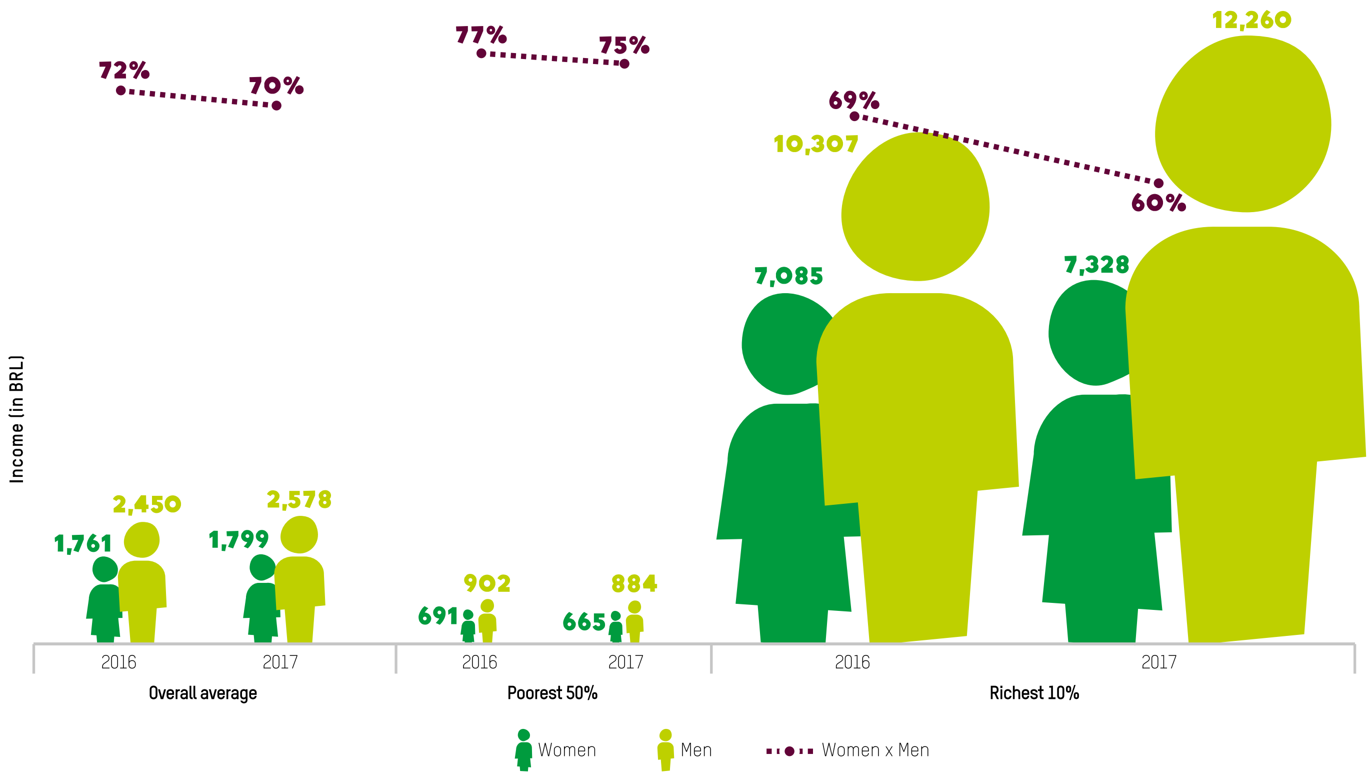
In 2017, women's average income was BRL 1,798.72, while men's was BRL 2,578.15.[79] Year-on-year, both women and men enjoyed average income increases, yet men saw their income increase by 5.2%, more than twice the increase women got (2.2%[80]). In the poorest half, however, there were losses –bigger in the case of poor women (-3.7%) than of poor men (-2%).

At the top of the distribution, men saw their income increase by nearly 19% between 2016 and 2017, while women saw their average incomes grow significantly less, by a meager 3.4%. As a result of this highly unequal growth at the top, the relation between the incomes of women and men in the highest income decile declined from 69% to 60% between 2016 and 2017, leaving us farther from closing the gender pay gap. These inequalities can be seen in **Graph 4**.

"THE FIRST TIME GENDER PAY GAP WIDENS IN 23 YEARS"

// GRAPH 4.

Brazil – Women's and men's incomes and average variation between women's and men's incomes in the poorest 50% and the richest 10% strata (2016-2017)



Source: Prepared by Oxfam Brasil, based on data by 2016 and 2017 Continuous PNAD.

Note: 2016 values were rounded off and adjusted by that year's consumer price index IPCA.

INCOME INEQUALITY ACROSS REGIONS

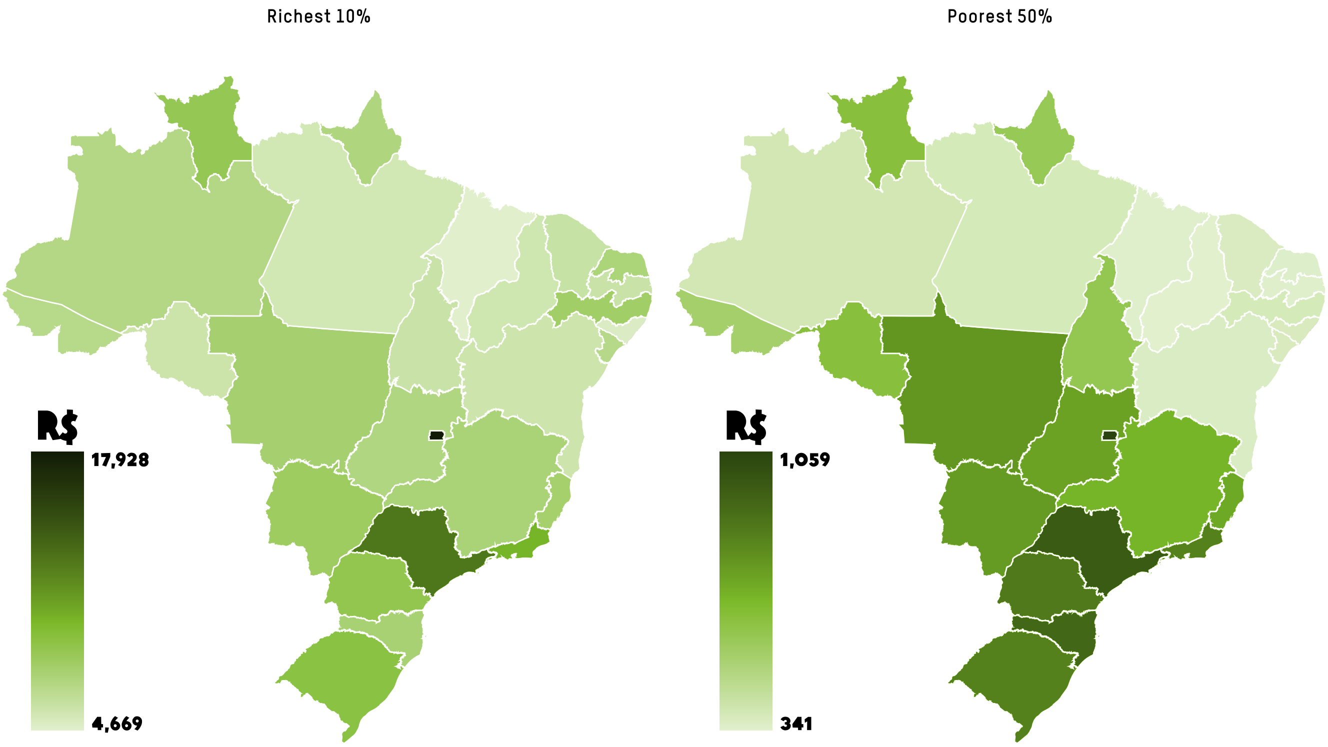
When we cast an analytic glance at regional inequalities, we realize movements changed directions. Whereas, between 2016 and 2017, income concentration increased in the North, Northeast, South, and Center-West regions, the opposite occurred in the Southeastern region, the hardest hit by the recent crisis.[81] The Southeast was the only region where total per capita income fell, with roughly BRL 5 billion in total earnings lost.[82]

Examining income variation by Federative Unit (UF), 12 of the 27 federative units exhibited aggregate loss of income, while the other 15 saw an increase.[83] São Paulo accounted for 71% of the nation's income contraction, followed by Rio de Janeiro and Pernambuco.[84] This can be explained by these three states' extremely high-income concentration, as well as by the vast swaths of the population living in them who were hit by the rise in unemployment.

In 2017, the average monthly income from labor was BRL1,630.00 in the North, BRL 1,509.00 in the Northeast (the only regions below the national average), BRL 2,475.00 in the Southeast, BRL 2.397,00 in the South, and BRL 2,512.00 in the Center-West,[85] the highest Brazilian average.

Examining the situation in each federative unit, we can see to what extent inequality makes the poor and the rich in one federative unit to be even richer and poorer than in the other. The average income of the poorest 50% in the Federal District (BRL 1,059.00, the highest among the UFs) is three times higher than the income of the poorest in Piauí (BRL 341.00, the lowest among the UFs).[86] Likewise, the average income of the richest 10% in São Paulo (BRL 12,816.00) is nearly three times higher than the average income of the richest 10% in Maranhão (BRL 4,669.00) –a ratio that nearly quadruples when Maranhão is compared with the Federal District.[87] **Map 1** provides a picture of these regional inequalities.

// MAP 1.
Brazil – Average income of richest 10% and poorest 50% by state and Federal District (2016)



Source: Prepared by Oxfam Brasil, based on the 2016 Continuous IBGE/PNAD.

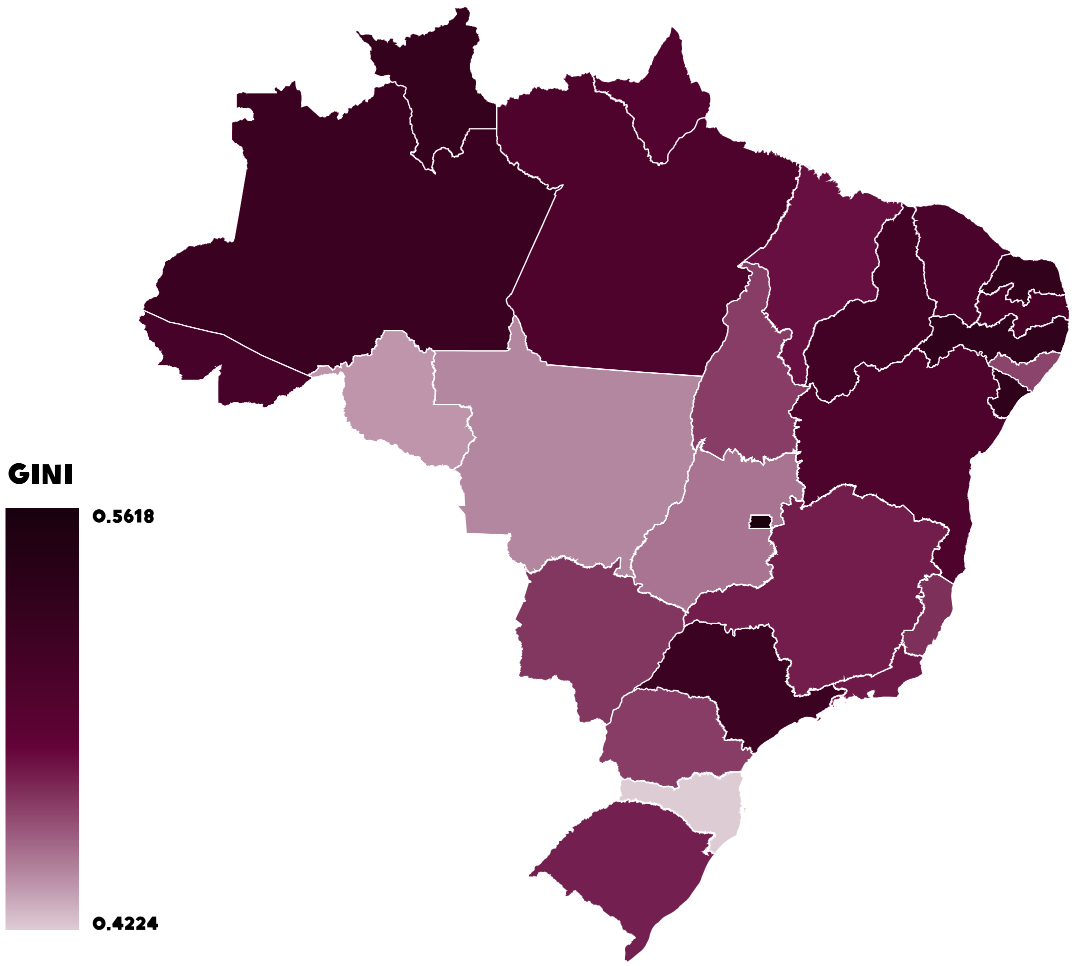
In addition to inequalities across Federative Units, we contrasted inequalities within the States with those of the Federal District. The geography of inequalities changes with the data, making it evident that many Brazilian states are highly unequal themselves, however high or low their incomes might be.

The Federal District is the iconic case for inequalities in Brazil, with the highest Gini index – 0.561.[88] This index is driven by the average income, the highest in the country,[89] which is mostly concentrated in the Plano Piloto area (where average earnings are higher than five minimum wages) to the detriment of other regions in the Federal District, e.g. Cidade Estrutural (where a person earns, on average, less than one minimum wage).[90]

Together with the Federal District, Sergipe, Pernambuco, Rio Grande do Norte, and Roraima comprise the group of the five most unequal UFs in the country,[91] the two last states with remarkably richer capital cities vis-a-vis countryside cities, which helps explain to a good extent these inequalities. On the other hand, Santa Catarina, Rondônia, Mato Grosso, Goiás, and Alagoas are less unequal states,[92] regardless of their quite different incomes per capita.

Map 2 reveals the contrasts between states. The Center-Western and Southern regions are those exhibiting the lowest inequality within each federative unit, regardless of the outlier status of the Federal District.

// MAP 2.
Brazil – Gini coefficient by Federative Unit (2016)



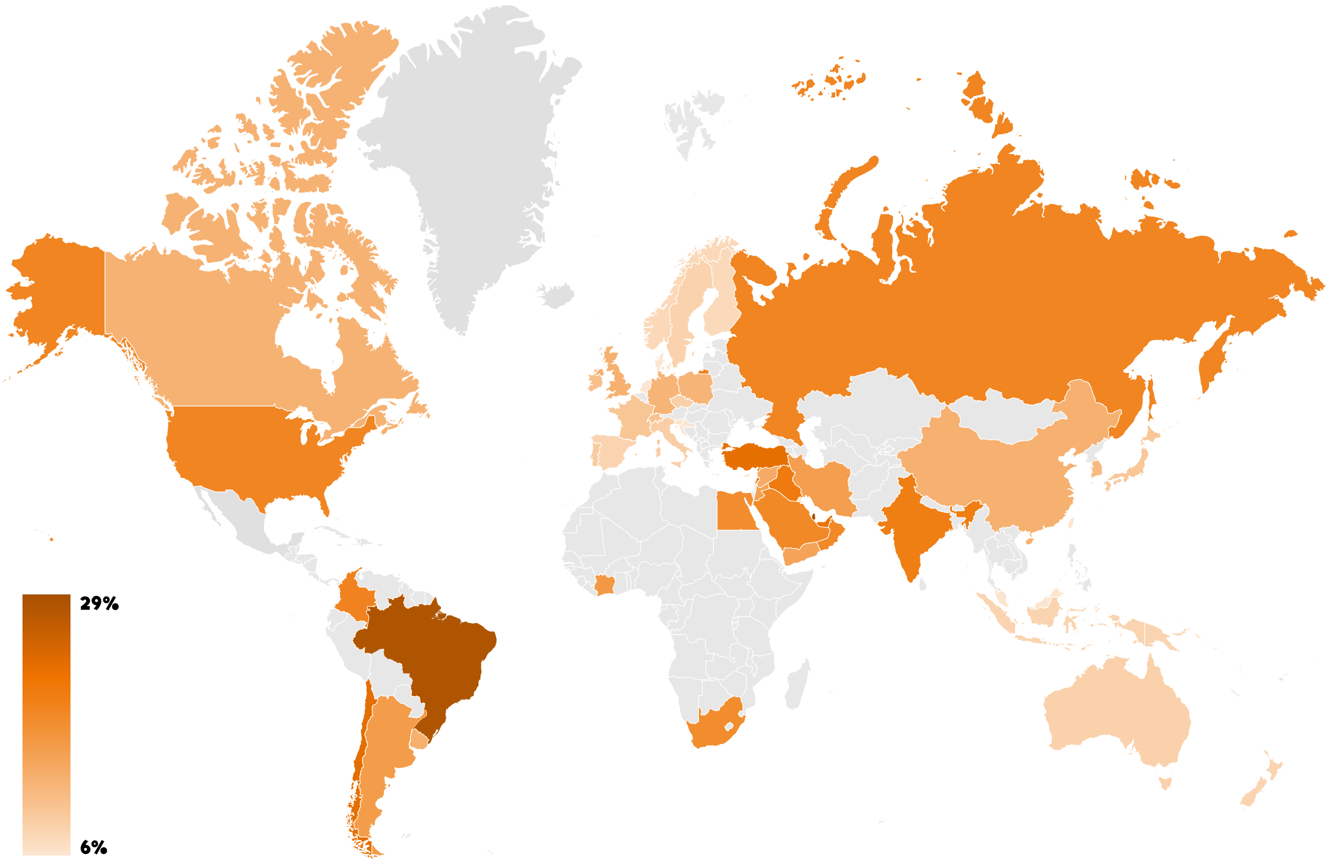
Source: Prepared by Oxfam Brasil, based on data from the 2016 Continuous IBGE/PNAD household survey.

INCOME INEQUALITY IN BRAZIL IN INTERNATIONAL CONTEXT

On the whole, the income inequalities outlined above place Brazil as one of the most unequal nations on the planet. Taking those countries with relatively recent data available,[93] Brazil is only behind Qatar in terms of income concentration by the richest 1% –in the Arab country, the richest 1% concentrates 29% of total income, whereas in Brazil the richest 1% concentrate 28%.[94] Along with Qatar and Brazil, Chile, Turkey, and Lebanon form the five countries with the highest income concentration of all those with available data.[95]

At the other end of the richest 1% concentration spectrum are the Netherlands, Denmark, Slovenia, Maurice Islands, and Finland, the five countries with the lowest income concentration at the top of the social pyramid –6 to 7%.[96] **Map 3** indicates that the biggest economies of Latin America and the Caribbean, the United States, Turkey, Russia, India, and the Mashriq region are all high-concentration areas, contrasting with Canada, Europe, Southern Asia, and Oceania. Data are missing for several countries, notably in Africa and Central Asia.[97]

// MAP 3.
World – Share of the richest 1% by country (2004-2016)



Source: Prepared by Oxfam Brasil, based on data by Wealth and Income Database – WID

Note: Most of the data referring to 2012 and onwards, but there are cases of data on previous years dating back to 2004.

According to updated UNDP data, in 2018 Brazil occupied the 9th worst position in terms of income inequality, as measured by the Gini index, out of 189 countries. Although Brazil is among the ten largest global economies, the Brazilian GDP per capita, estimated to be USD 9,821.41,[98] is still relatively low when compared with that of countries with slightly fewer inequalities than ours, like Chile (USD 15,346.45), Panama (USD 15,087.68), and Costa Rica (USD 11,630.67.)[99]

Redistributive measures, though crucial for combating inequalities, are insufficient by themselves. Brazil is faced with the challenge of growing its economy, given the size of its population vis-a-vis its GDP. But for that we must push for an inclusive model of economy and a State that may promote growth without leaving behind the vast majority of the population. It is imperative to lay the foundations for a robust economy that will drive the building of a fair society.

Paulo Pereira // Oxfam Brasil

2.

TAXATION AND SOCIAL SPENDING AGAINST INEQUALITIES

> **“ARTICLE 3. THE FUNDAMENTAL OBJECTIVES OF THE FEDERATIVE REPUBLIC OF BRAZIL ARE: ... TO ERADICATE POVERTY AND SUBSTANDARD LIVING CONDITIONS AND TO REDUCE SOCIAL AND REGIONAL INEQUALITIES”**
>
> (Federal Constitution of 1988)

The Federal Constitution of 1988 ended the ‘limited’ citizenship that characterized the previous Charters, and restricted access to the State to specific groups of the population, in particular those holding working papers[100]. It was a first historic step toward universal services and rights, the creation of a late Welfare State in the midst of a rising neoliberal wave worldwide. At that moment, guidelines for redistributive policies were established that failed to be fully implemented by the governments and parliaments that followed.

On the one hand, the country set to work to build a government machine capable of providing, among other services, universal health, education, assistance, social security, and rural extension services.[101] The result of that movement can be seen in a Single Health System (SUS), a Single Social Assistance System (Suas), in a social safety network, and a public education system for the whole population in school age. Despite the huge challenges it faces, this is a state structure that is rare for countries in the Latin American and Caribbean region, even for those with a socioeconomic profile similar to Brazil’s.

On the other have, we have regulated our tax system without consideration for constitutional principles providing for the reduction of inequalities and respect for each citizen’s contributive capacity, while also laying the groundwork for our huge fiscal fragility.[102]

There is social support for State expansion as regards expenditure on social policies.[103] Considering the recent past, a movement has been observed in public opinion, though not a reversal in the pro-State position of the Brazilians. **Graph 5**, which brings together findings from questions made in five different opinion polls between 2008 and 2017[104] (the last of these carried out by Oxfam Brasil with polling firm Instituto Datafolha), shows how Brazilians regard social spending and taxation.

// GRAPH 5.

Brazil – Level of agreement with government actions intended to reduce inequalities, increase taxes in general and raise taxes for very rich people (2008-2017)

Sources: PSIEMS (2008), Cesop (2010 and 2014), CEM (2013) in Arretche and Araújo 2017; Oxfam Brasil/Datafolha 2017.

Note: The figures above include both partial and total agreement with questions.

There was a shift in the level of support for social State intervention, from 92% to 79% among those with incomes of up to one minimum wage, and from 90% to 75% among those earning more than five minimum wages. Still, these days nearly eight out of ten Brazilians expect their government to take action to reduce inequalities.

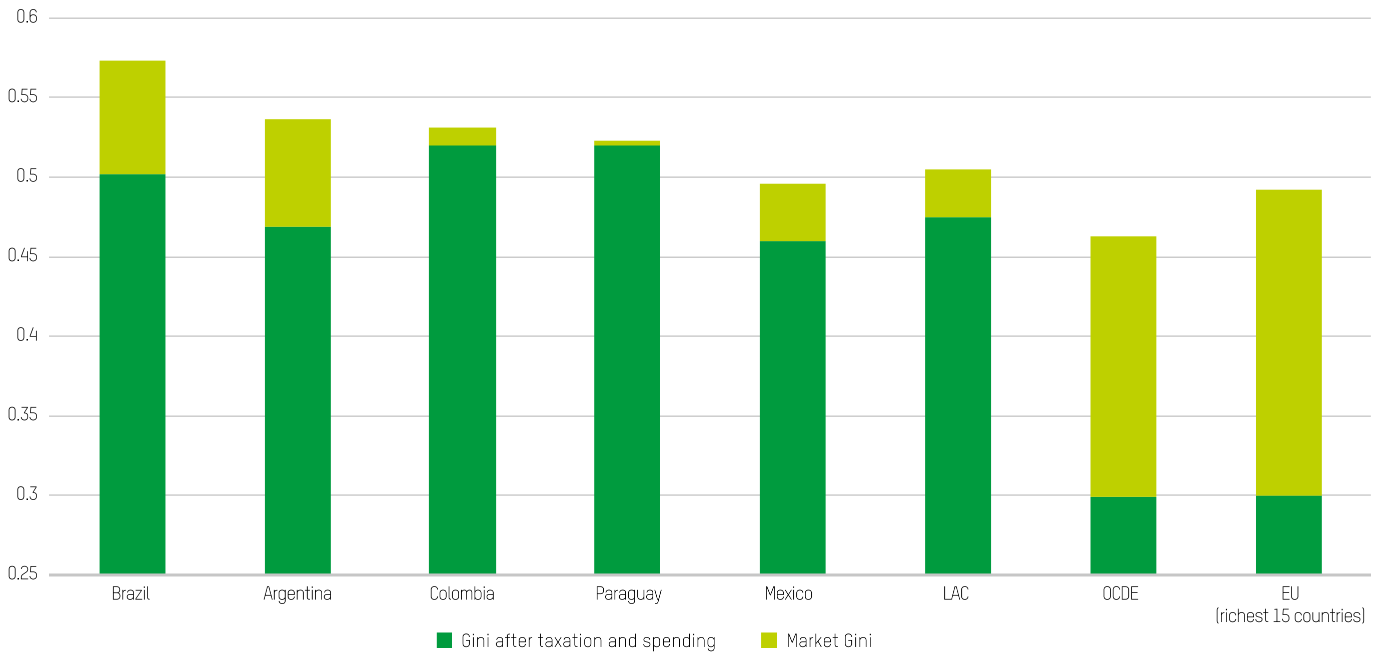
The already little support for greater taxation to fund social policies also fell –from 45% to 30%, for those earning less than a minimum wage, and from 21% to 8%, for those with earnings above five minimum wages. Thus, the Brazilian has consolidated an apparently contradictory vision: pro-State, yet anti-taxes.

Oxfam Brasil and polling firm Instituto Datafolha included a specific question that had not been asked in previous years to measure respondents' agreement with the following statement, "*The government should increase taxes only for very rich people to ensure better education, more health, and more housing for those in need*". The result was that 74% of the population whose income was up to one minimum wage and 56% of the population with earnings of five minimum wages or more agreed with the statement. Overall, 71% of the Brazilians were in favor of increasing taxes for those at the top of the social pyramid.[105] In other words, society does support redistributive fiscal policies – including tax-based redistributive policies.

Today, Brazil is not doing so well as regards taxation, but it fares much better when it comes to spending – despite some major challenges relating to progressivity and efficiency, especially regarding social security. A conventional way of measuring the role of the State in correcting income inequalities is by calculating "market" inequalities, that is, those prompted by differences in gross earnings, and comparing them with final inequalities, after the fiscal policy. This means measuring the effect of direct transfers (retirement payments, pensions, cash transfer program Bolsa Família, and others), provisions for health and education (how much these public services save of citizens' incomes), direct taxation (on income and wealth), and indirect taxation (implicit in goods and services consumed) on the population's income. **Graph 6** shows how inequalities before and after taxation were measured in some countries.

// GRAPH 6.

Latin America and the Caribbean, OECD, European Union, and select countries – Impact of taxation and social spending on income inequality (2015)



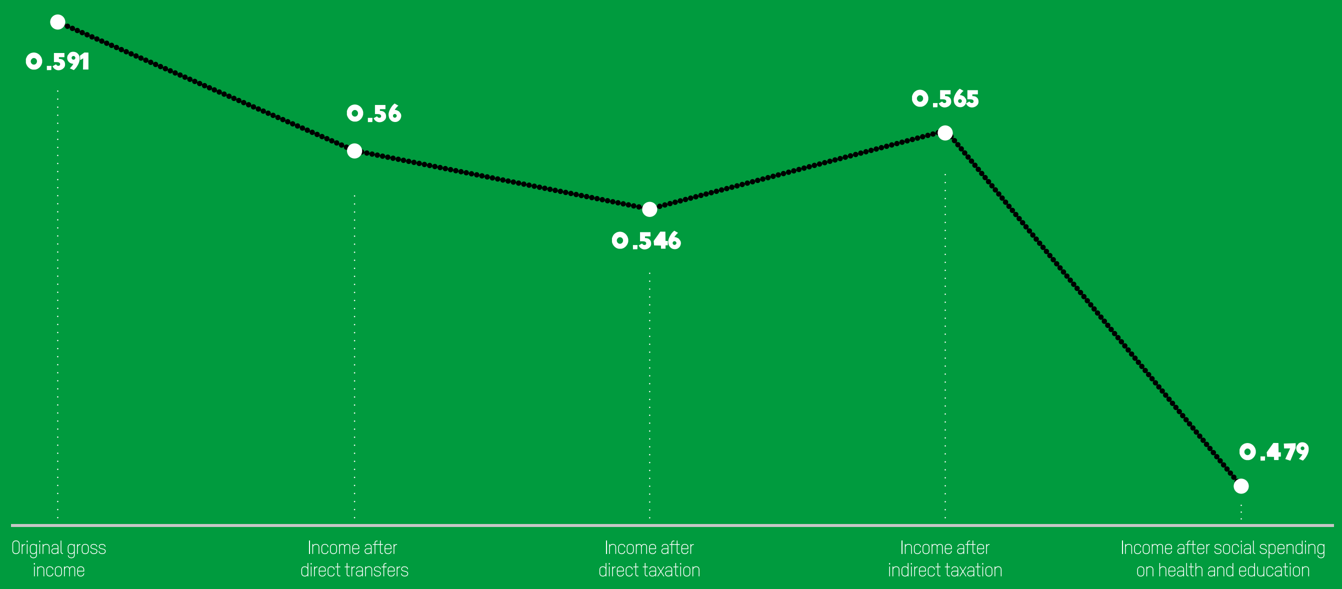
Source: Hanni, Martner & Podestá. 2015.

Brazil's tax system is more effective in reducing inequalities than other big economies in the region, like Colombia and Mexico, more effective than the average of Latin America and the Caribbean, and comparable to Argentina. Nonetheless, we lag far behind OECD countries and, even farther behind the fifteen richest European Union countries. It is also worth noting how the initial inequality level is relatively similar across countries yet differs significantly after taxes and social spending, which reveals differences that are to be mostly credited to the fiscal policy.

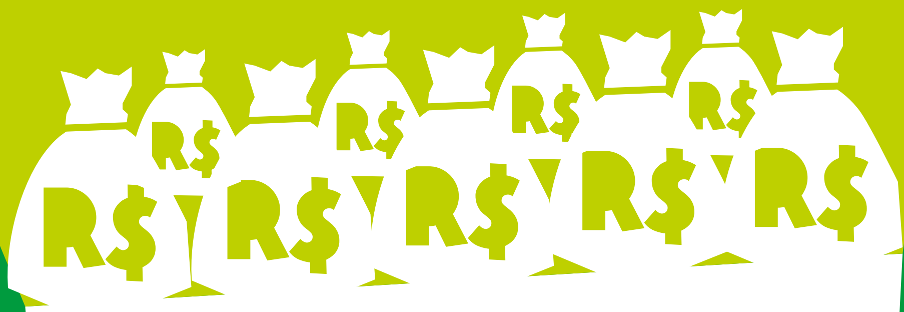
In Brazil, it is estimated that the overall effect of transfers and taxation is a reduction of inequalities by 5.7%, reaching 21.8% when spending on health and education is considered.[106] The effect of direct transfers is a 7.6% reduction in inequalities, which is dampened by a tax system that increases inequalities by about 2% (largely on account of highly regressive indirect taxes).[107] Considering provisions for health and education in isolation, the redistributive effect of direct taxation is the strongest: 17.1%.[108] **Graph 7** summarizes these findings.

// GRAPH 7.

Brazil – Impact of taxation and social spending on Gini index of income distribution (2013)



Source: Silveira 2012.[109]



Other analyses point to a neutral, non-regressive tax system[110] –unacceptable in such an unequal country like ours. These analyses converge as regards the overall role of the Brazilian tax policy, further reinforcing the need for improvements in taxation and acknowledging the key role of expenditure.

Next, an overview of the compositions of the tax system and of the social budget, and what they mean to the country's income distribution and the reduction of inequalities.

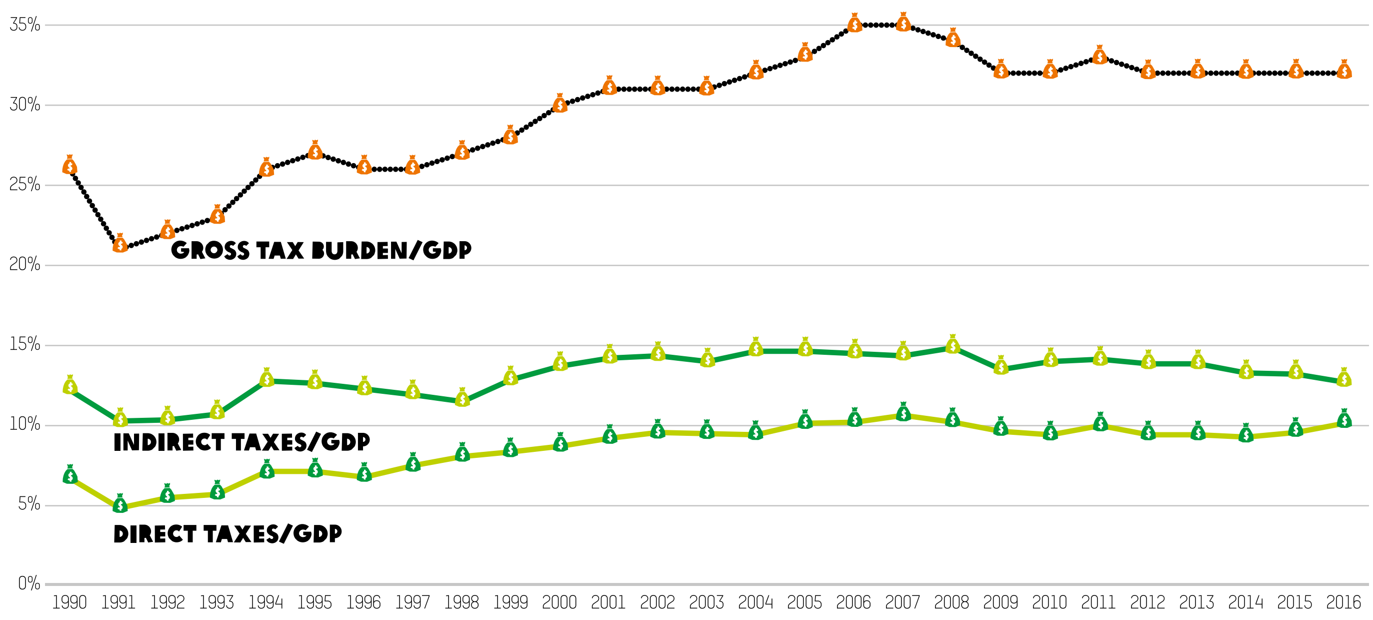
2.1. TAXATION

Brazil is not an ordinary country as regards taxation. Compared with countries with similar economic characteristics, what stands out is our high tax burden (which enables broad coverage by public policies), while our taxes are regressive rather than progressive. Such characteristic undermines inequality reduction and even the productivity of the economy itself,[111] a topic that has been debated and agreed upon by specialists across the political and economic spectrum.

In Oxfam's global Commitment to Reduce Inequality Index (CRII), Brazil's tax system ranks 64, out of 159 countries.[112] The overall regressivity of the Brazilian tax system accounts for the country's performance in comparative terms.[113]

Over the post 1988 period, gross tax burden (GTB) grew from approximately 20% of GDP to more than 33% of GDP in 2005, a rate that has remained steady since then, as shown in **Graph 8**.

// GRAPH 8.
Brazil – Gross tax burden and direct and indirect taxes as a proportion of GDP (1990-2016)



Source: ECLAC (2018), with data by the National Treasury Secretariat.

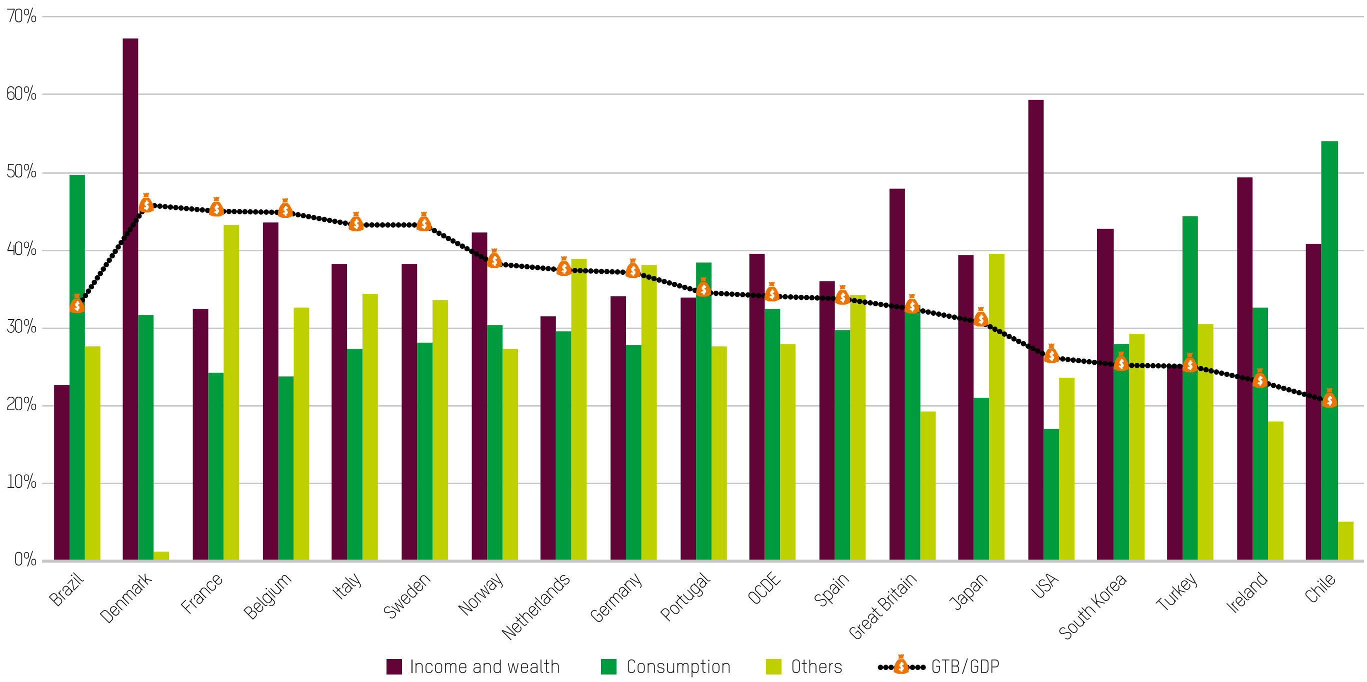
The ratio of direct taxes to indirect taxes varied slightly over the period. The main direct taxes in Brazil are personal income tax IRPF (2.5% of GDP), corporate tax IRPJ (1.7% of GDP), the IPVA tax on vehicles (0.6% of GDP), and the IPTU property tax (0.5% of GDP).[114]

Indirect taxes include, among others, goods and services tax ICMS (6.7% of GDP), social security fund COFINS (3.2% of GDP), the tax on services or ISS (1% of GDP), the tax on manufacturing goods or IPI (0.8% of GDP), and social integration tax PIS (0.7% of GDP).[115]

Since the adoption of the Federal Constitution, which provided for a fair tax system, governments and parliaments have assigned greater weight to indirect taxation, that is, to goods and services, a tax that is borne by the poor and the rich indiscriminately, rather than to direct and individual taxation, which makes it easier to distinguish between rich and poor so as to correct excessive inequalities. As a result, the Brazilian tax system has reinforced inequalities over time.

Considering the countries on the OECD list (member countries and partners), Brazil is one of three countries whose indirect taxes exceed direct taxes as a percentage of its tax burden.[116] As shown in **Graph 9**, the majority of the big economies of the planet base their tax collection primarily on wealth and income taxes, with the exception of Brazil, Turkey, and Chile.[117] On this list, Brazil is the one taxing wealth and income the least as a proportion of gross tax burden (GTB), just over 22%. The OECD average is 40%.[118] Conversely, Brazilian indirect taxation accounts for almost 50% of total tax collection, whereas, on average, indirect taxation does not exceed 33% in OECD countries.[119]

// GRAPH 9.
OECD – Gross tax burden and share of taxes in the composition of tax revenue (2015)



Source: Prepared by Oxfam Brasil, based on Oliveira 2018, according to OECD data.

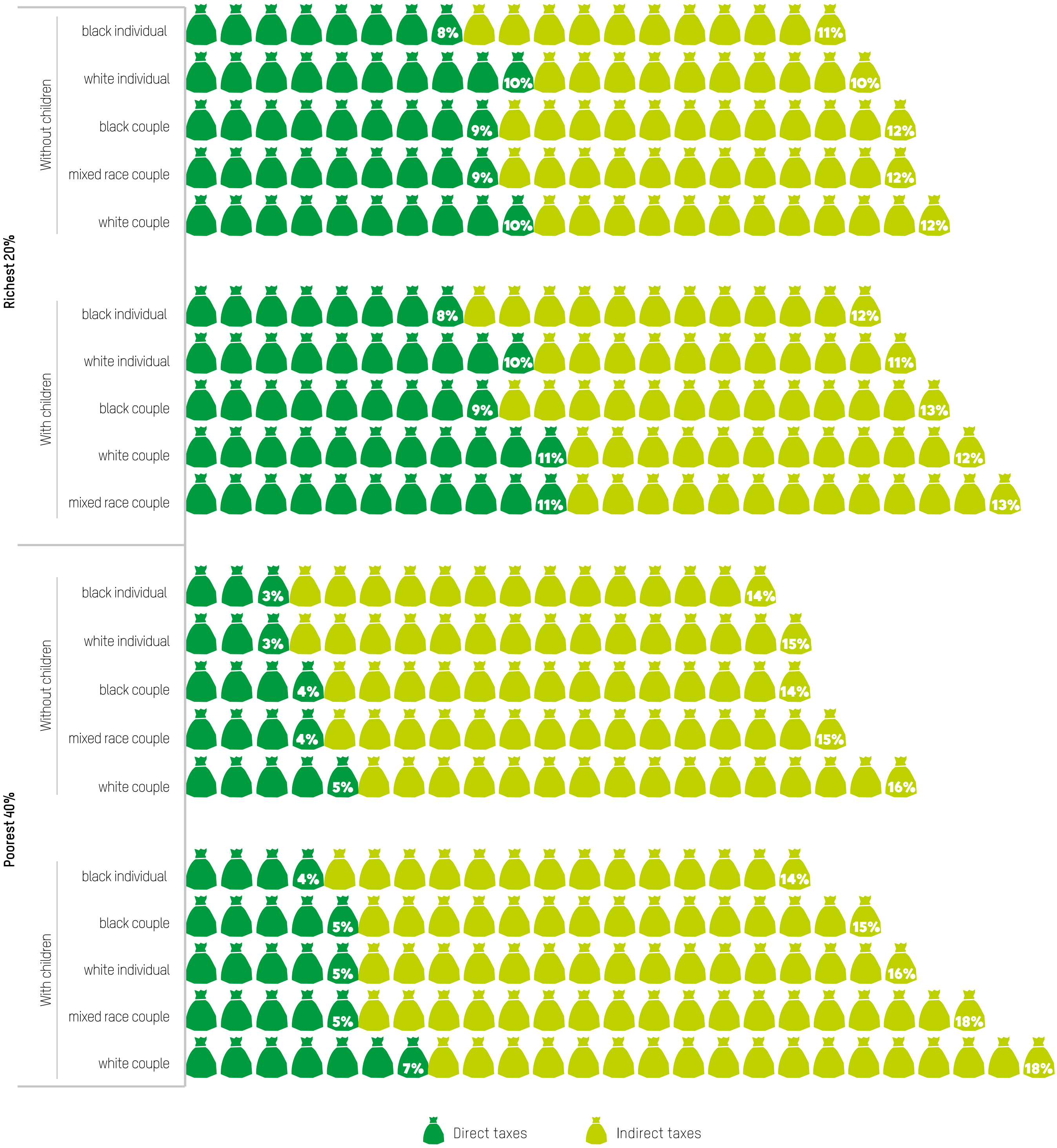
It is worth stressing that excessive reliance on indirect taxation increases the sensitivity of tax collection to economic cycles, which, in a crisis, may jeopardize the very capacity of the State to finance itself.[120] In other words, if the economy fares poorly, tax collection fares poorly –either because of drops or delays in tax collection, in addition to increased tax evasion[121] – and the focus shifts to more tax collection or less spending, measures that are bound to penalize the poorest strata.

In an analysis of the impact of taxation on different Brazilian society groups, we realize how regressivity (or near neutrality) occurs. As revealed by **Graphs 10** and **11** below, the major difference regards the way tax incidence affects the base and the top of the pyramid.

An estimate of the tax incidence on the average earnings of the poorest 40% and of the richest 20%, from different household compositions by race and sex, points to little variation of total personal tax incidence within society. An overall glance suffices to conclude that there is no meaningful difference between the relative taxation of the base and of the top of the social pyramid, with variations ranging from 17% to 26% across categories.

// GRAPH 10.

Brazil – Share of direct and indirect taxes on household income by the color of the head of the household and household income per capita strata (2008-2009)

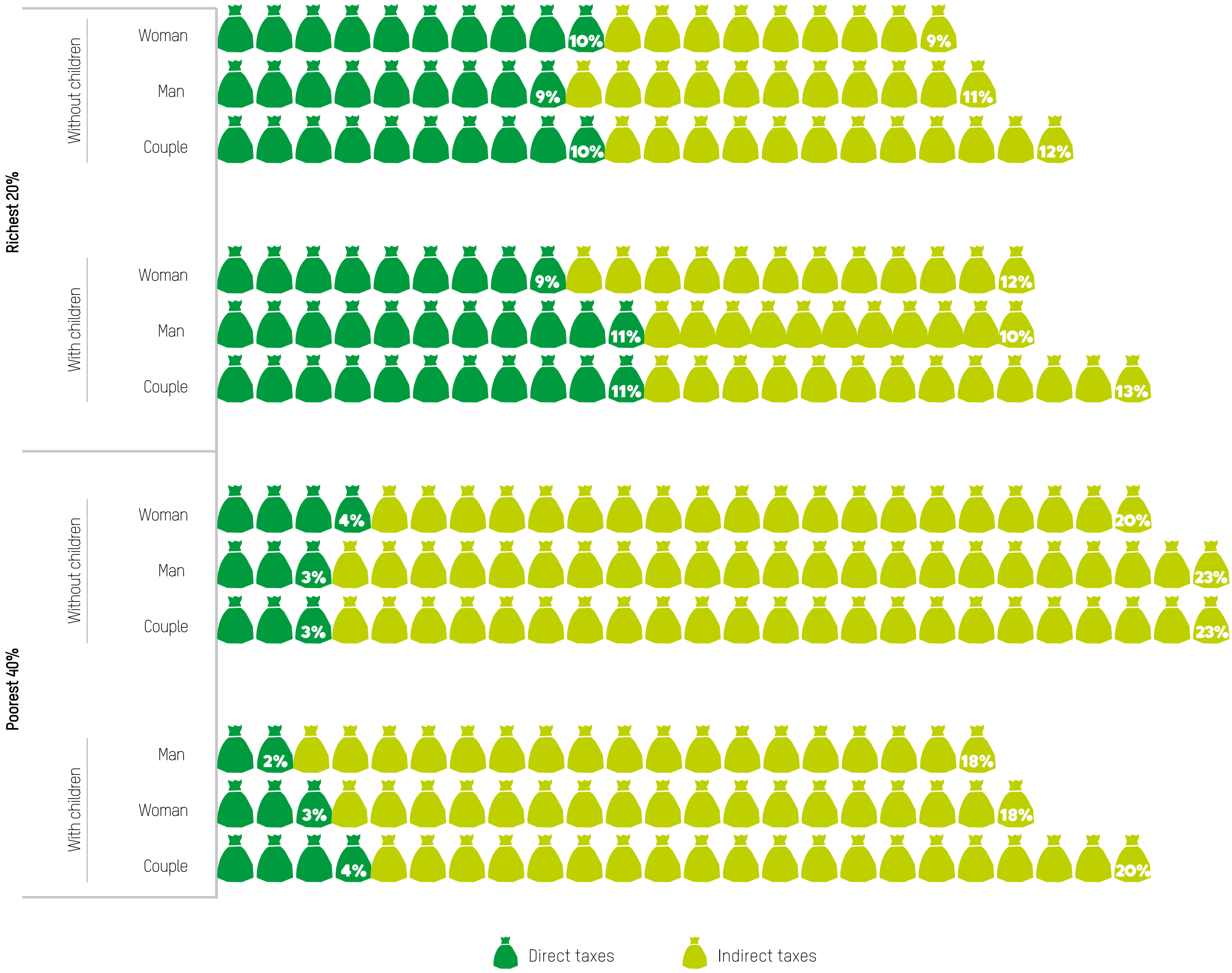


Source: Silveira 2012; POF 2008/09.

Note: Researcher Fernando Gaiger Silveira provided his tax and social spending database per POF (household budget survey) unit of consumption. With that database and PNAD microdata, data were processed and organized according to household living arrangements. The 2008-2009 POF is still the most recent survey available for these calculations, as 2018 POF data had not been released by the time this report was concluded.

// GRAPH 11.

Brazil – Share of direct and indirect taxes on income by household category according to marital status, sex, presence of children and household income per capita strata (2008-2009)



Source: Silveira 2012; POF 2008/09.

Note: Researcher Fernando Gaiger Silveira provided his tax and social spending database per POF (household budget survey) unit of consumption. With that database and PNAD microdata, data were processed and organized according to household living arrangements. The 2008-2009 POF is still the most recent survey available for these calculations, as 2018 POF data had not been released by the time this report was concluded.

What is striking is the regressive role of indirect taxation on low-income groups, as it increases the tax burden for households and individuals in the 40-percent poorest stratum to the same levels of those who are among the 20-percent richest group, revealing the inability of the Brazilian tax system to address unequally those who are unequal, and ultimately correcting income gaps.

Another factor that greatly impacts the household tax burden is the presence of children. Consideration should be given to the fact that, both in the race-based analysis (**Graph 10**) and in the sex-based analysis (**Graph 11**), couples with children tend to increase their indirect taxation –surely because of increased consumption of various goods and services– eventually increasing the weight of total taxation. This increase is more plainly seen in the group encompassing the poorest 40% of the population.

When casting a glance at racial inequalities, we notice that blacks (considering "black" and "mixed race" individuals and couples)[122] at the base of the pyramid spend between 17% and 23% of their earnings on taxes, mostly indirect taxes. This proportion is similar to the variation among poor whites, who spend between 18% and 25% of their earnings on taxes, also mostly indirect. Even though the tax system in itself is not the cause of racial inequalities, it impacts blacks differently: being poor means paying more taxes, and being a poor black means paying more taxes out of a smaller income, thus further weakening the condition of black households.

As for marital status, sex, and presence of children arrangements, the averages show that the widest variations are at the base of the pyramid, burdening mixed race and white couples with children with the heaviest household taxation, 24% and 25%, respectively. Once again we notice the presence of children significantly increasing tax incidence on these cross sections of the population.

The solution for this problem is the redistribution of the Brazilian tax burden. This would entail reducing indirect taxes and increasing direct taxes, in particular taxing the income of the richest.

TAX REFORM

The 1988 Constitution guides the tax system to levy taxes considering "individual character" and the "economic capacity of the taxpayer."[123] The idea of tax progressivity is, therefore, crystal clear, and further reinforced by the Charter's general principle of inequality reduction.[124]

Since 1988, several bills were passed to regulate or reform our tax system. Notably, great changes occurred in 1995 and 1996, with the passage of a tax package designed to boost investment.[125] Unfortunately, a portion of the changes in these packages took the opposite direction of inequality reduction.

Over the past years, the debate in the country has been guided by tax simplification and reduction.[126] As a rule, new changes to the tax system have been proposed that have sought to reduce the web of taxes that fall on the productive sector, critical for development, yet not enough to promote inclusive growth in a fairer society. There has been a quest for efficiency, but not for equity.

Over the last ten years, for example, 81 pieces of legislation have been passed that have changed the tax system somehow,[127] most of them addressing ad hoc tax exemptions, in addition to others intended to adjust income tax rates and tables.

Tax reforms were proposed at some points in our history, almost always frustrated or watered down. The greatest hurdles have concerned the country's federative issue, the complexity of the matter undermining the confidence of the actors charged with reaching a compromise, and the top-of-the-pyramid lobby.[128] Judicial activism has also been a hurdle, in that, as regards the various taxes, its decisions have limited the system's progressivity. These hurdles must be overcome if taxation is to be improved.

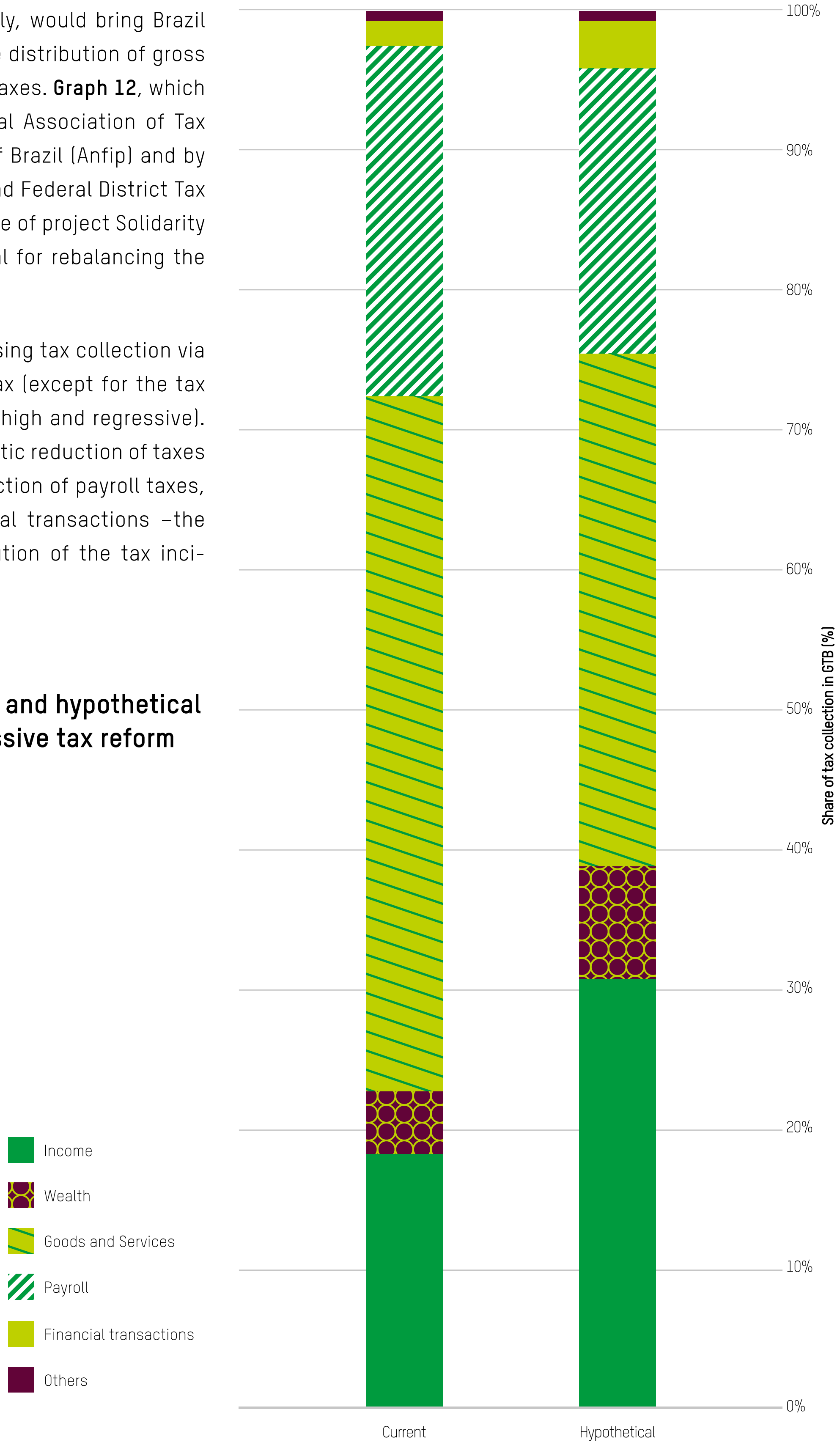
> "...TAXES SHALL HAVE AN INDIVIDUAL CHARACTER AND SHALL BE GRADED ACCORDING TO THE ECONOMIC CAPACITY OF THE TAXPAYER..."

Oxfam Brasil believes that this reform should include some mandatory points that, jointly, would bring Brazil closer to the OECD as concerns the distribution of gross tax incidence in different kinds of taxes. **Graph 12**, which shows calculations by the National Association of Tax Auditors of the Federal Revenue of Brazil (Anfip) and by the National Federation of State and Federal District Tax Authorities (Fenafisco), in the scope of project Solidarity Tax Reform,[129] assuming a proposal for rebalancing the tax burden to that end is adopted.

The main change should be increasing tax collection via personal income tax and wealth tax (except for the tax on vehicles, or IPVA, already quite high and regressive). Conversely, there would be a dramatic reduction of taxes on goods and services, some reduction of payroll taxes, and increased taxation of financial transactions –the overall effect being the redistribution of the tax incidence by adopting slight changes.

// GRAPH 12.

Brazil – Current tax structure and hypothetical tax structure under a progressive tax reform



Source: Prepared by Oxfam Brasil, based on data by Anfip and Fenafisco (2018)

One of the most important changes to be made concerns Brazil's personal income tax IRPF. This already is a progressive tax, levied from about 27 million people, nearly 20% of the workforce, a fact that itself contributed to its progressivity.

It is estimated that the impact of the personal income tax, today, on the reduction of income inequality is 2.8%.[130] However relevant, this impact is lower than that of other Latin American countries like Mexico, Argentina, Chile, and Uruguay, where the reduction ranges from 2.9 to 4.8%,[131] and much lower than that of OECD countries, 6% on average.[132]

The main hurdle to increasing personal income tax progressivity is that profits and dividends have been tax exempt since 1996, pursuant to Law 9249/1995. Until 1996, Brazil had a 15-percent tax rate on these earnings. The decision to eliminate this tax was based on a review of double taxation on profit, on the corporate tax and on the personal tax, notwithstanding the existence of some sort of combination of company and personal income taxes in a vast majority of economies around the world.[133]

By testing changes in personal income tax IRPF not requiring constitutional amendments, we noticed that increased personal income tax progressivity is one of the most powerful measures for reducing inequalities. In **Table 1**, we estimated the effect of reintroducing the tax on profits and distributed dividends. With a single 15% tax rate, the Gini index would decrease by 2.33%. If introduced progressively (with tax rates ranging from 15% to 22.5%) the reduction would amount to 2.77%.

// TABLE 1.
Brazil – Distributive impacts of changes in personal income tax IRPF with reinstatement of tax on distributed profits and dividends and the end of health and education tax deductions (2008)

ESTIMATE	GINI BEFORE	GINI AFTER	EFFECT	DROP IN GINI
IRPF today	0.7008	0.6883	-0.0125	-1.78%
with a 15% tax on profits and dividends	0.7008	0.6845	-0.0163	-2.33%
with a progressive tax on profits and dividends	0.7008	0.6814	-0.0194	-2.77%

Source: Silveira, Rodrigues e Passos 2018; Fernandes, Campolina e Silveira 2017.[134]

Considering the annual average of the total Gini index reduction in Brazil since the 1988 Federal Constitution up to 2015, the mere establishment of a tax on profits and dividends could, in one blow, reduce inequalities it took us two years to reduce. Assuming a full tax reform, the impact in terms of income redistribution would be equivalent to all we achieved in five years since 1988.

Much is to be done to reduce inequalities in Brazil. However, few reforms have so much immediate impact as a progressive tax reform, a measure that not only could improve income distribution, but also our fiscal health and economic performance. Undoubtedly, this is one of the top priorities on the country's agenda today.

2.2. SOCIAL SPENDING

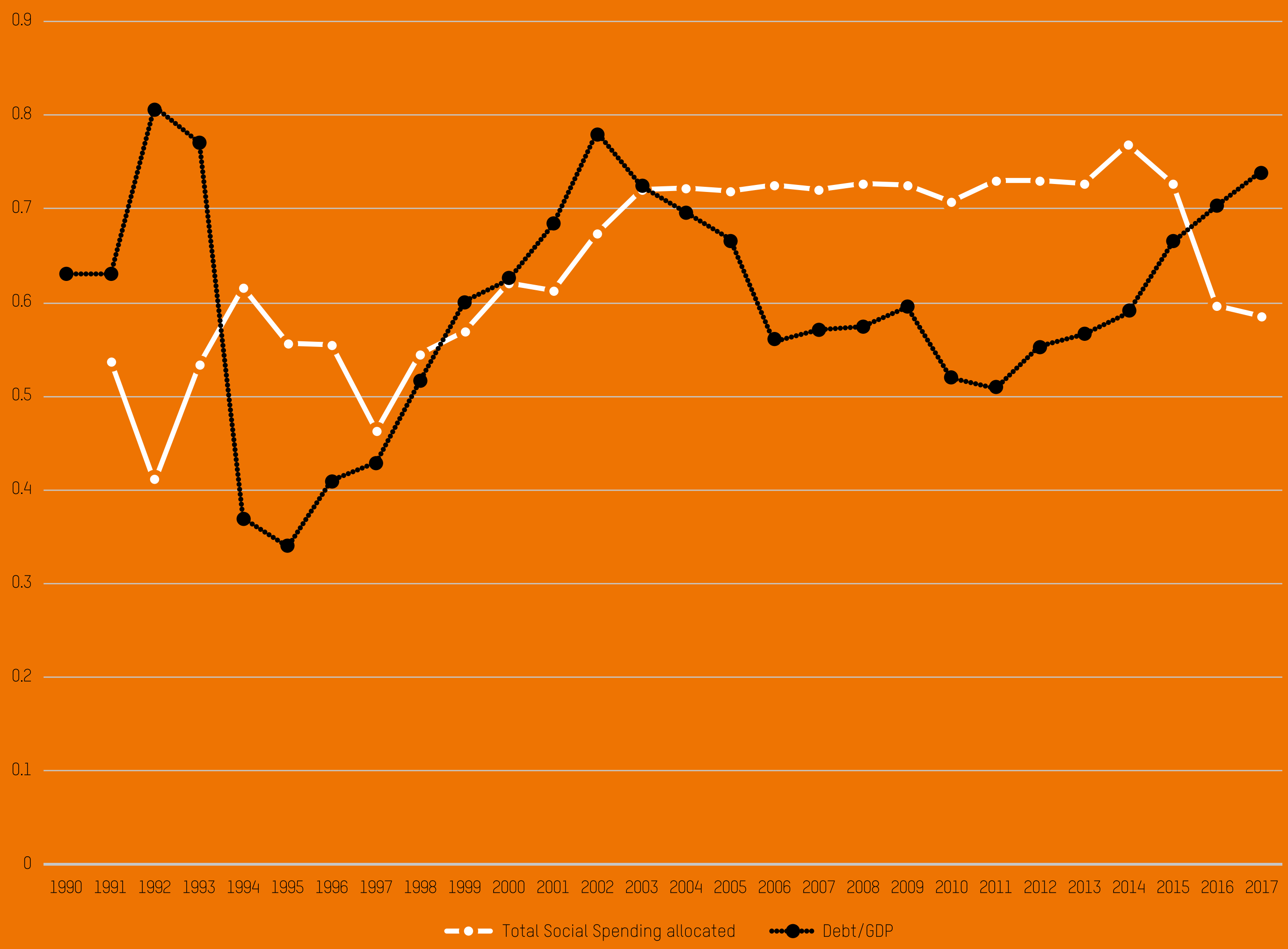
Social spending has been essential in fighting poverty and inequalities in Brazil. The overall effect of social policies in Brazil has been progressive, benefitting most those who most need them.

Brazil ranks 41st on the Commitment to Reduce Inequality Index (CRII) with reference to social spending.[135] In our favor are the volume of social spending as a proportion of the GDP and its impact on the reduction of the Gini index, relatively high.[136]

Between 2006 and 2010, the Brazilian fiscal situation was under relative control, enabling an increase in social policy spending and public investment in infrastructure, with the achievement of fiscal surpluses. From 2011 onwards, as shown in **Graph 13**, debt begins to grow from nearly 60% of GDP in 2014 to a rapid expansion in 2015 and 2016 to 70% of GDP –as a result of two strong and consecutive annual slowdowns, unprecedented in the country. This escalation culminated in a primary deficit of BRL 154 billion in 2016,[137] paving the way for radical solutions running counter to poverty and inequality reduction, just focused on slashing social programs in the short term and downsizing the State in the medium term.

// GRAPH 13.

Brazil – Debt-to-GDP ratio and federal social spending as a proportion of public budget (1990-2017)



Source: Prepared by Oxfam Brasil, based on data by ECLAC (2018) and Siga Brasil (2018)

Social expenditure had, by 2016, fallen by 13 p.p. over previous years' social spending, with a sudden return to 2011 levels.[138] This is a 17-year rollback in prioritizing social investment against inequality.

Oxfam Brasil calculated the public sector's share in social spending, drawing on data by the National Treasury Secretariat. Considering the main social expenses –retirement and pensions, assistance, health and education– Brazil spent 22.8% of its GDP in 2016. Of this total, 12.25% (54% of total) went to retirement and pensions, while 1.55% (about 7% of the total) was channeled to assistance. Most of these two expenditures account for the governments' direct transfers to the population. The shares of public provision of health and education, the so-called non-monetary expenditures, were, respectively, 3.98% and 5.01% of GDP.

As shown in **Graph 14**, social security expenses accounted for the highest share between 2010 and 2016, with a steady yearly average growth of 0.32% of GDP, about six times more than the average growth of health and education expenditure over the same period, and nearly seven times more than the average growth of assistance. Benefits stemming from that are also very high, insofar as Brazil has the broadest coverage for the elderly in Latin America and the Caribbean.[139] Expanding health and education spending remains a challenge, yet there is still room for efficiency and progressivity gains in the provision of these services.

A sharp fall in the GDP for two consecutive years –2015 and 2016– triggered the rise observable in **Graph 14**, and reveals the importance of reviewing social security so as to maintain their progressive effects and to cut unfair benefits, especially of the high public-sector bureaucracy in the executive, the legislative, and the judiciary alike, as compared to the rest of the population.

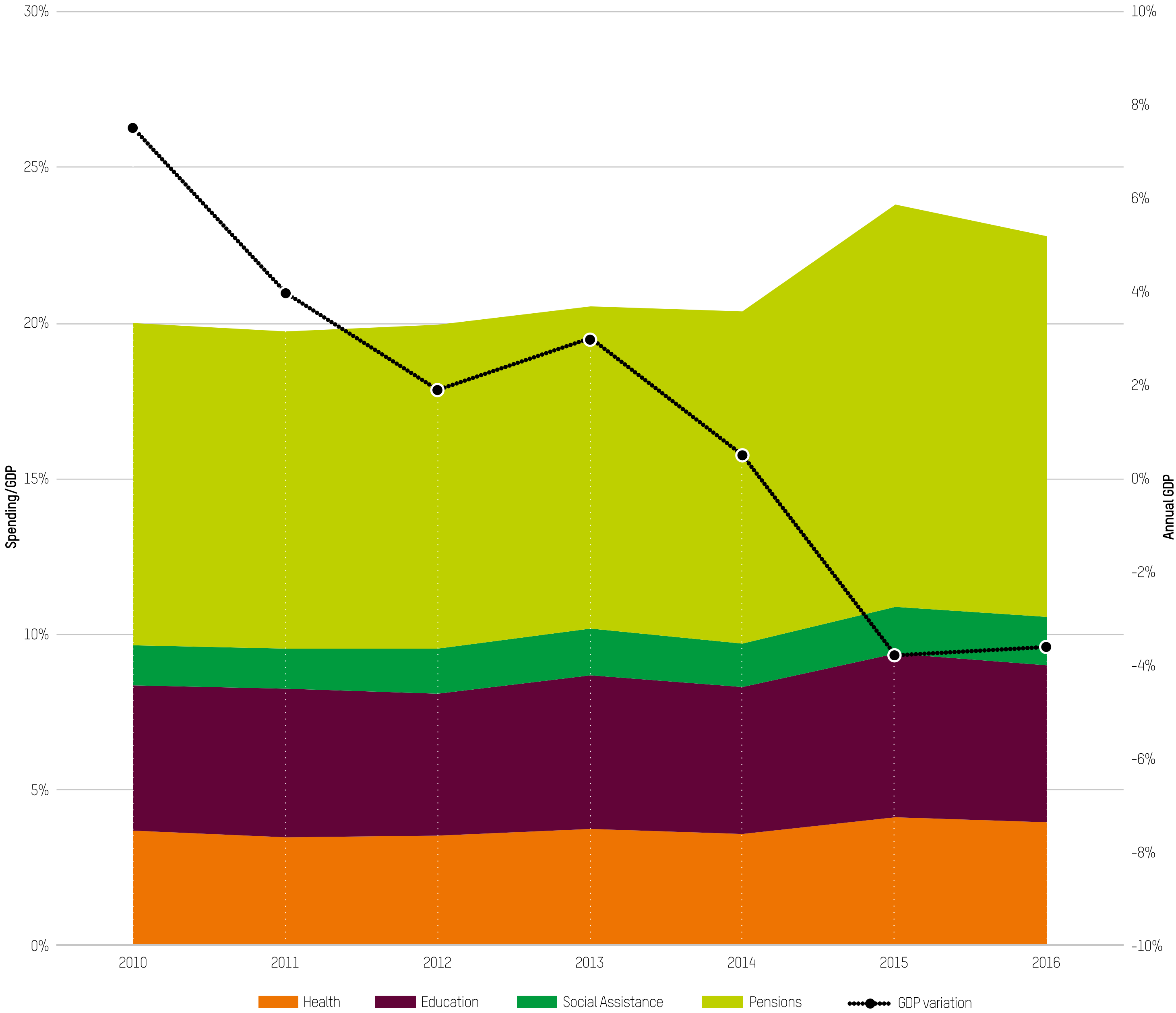
“THIS IS A 17-YEAR ROLLBACK IN PRIORITIZING SOCIAL INVESTMENT AGAINST INEQUALITIES”

As this expenditure comprises both pension systems, the civil service's *Regime Próprio* (literally, Own Regime) and the rest of the population's *Regime Geral* (General Regime), it is imperative to see where this expenditure is progressive and where it is not. Undeniably, the pension system needs reforming to maintain the very health of the Brazilian Welfare State, yet this reform should not penalize the base of the social pyramid while keeping privileges.

As seen before, direct transfers (public pension and assistance benefits) have a progressive effect, although much smaller than that of health and education provision. The impact of social spending on the reduction of inequalities for different population groups is visible in **Graphs 15** and **16**, showing that, regardless of household arrangements by sex and race, part of the income of the base of the pyramid is supported by transfers and provisions, a part substantially larger than that of the top of the social pyramid.

// GRAPH 14.

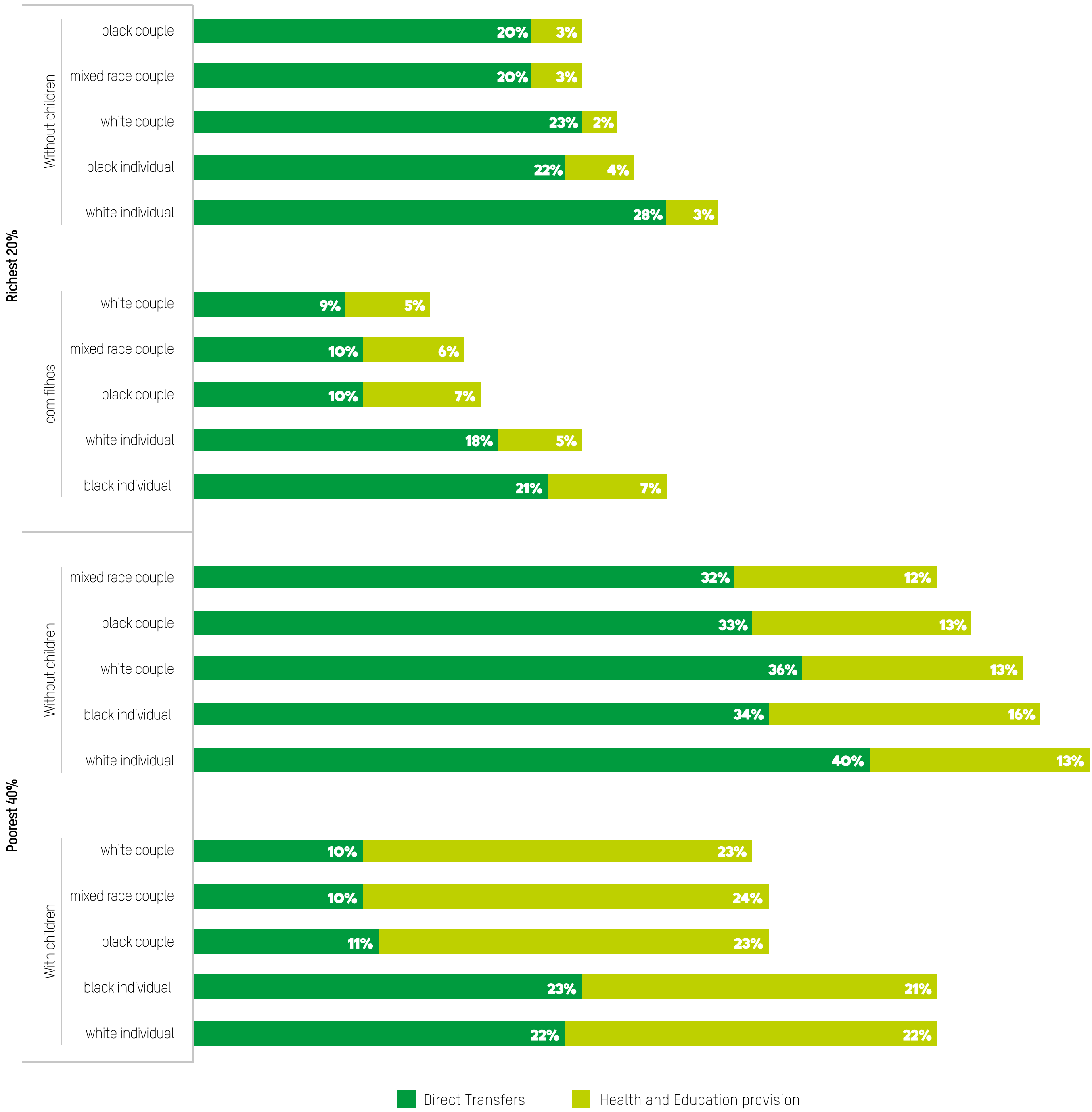
Brazil – Evolution of social spending on pensions, assistance, health and education in relation to GDP, and annual GDP variation (2010-2016)



Source: Prepared by Oxfam Brasil, based on data by the National Treasury Secretariat/MF (2018) and the Central Bank of Brazil (2018).

// GRAPH 15.

Brazil – Share of transfers and of health and education expenditures in the income of household categories according to the color of the head of the household and household income per capita strata (2008-2009)



Source: Silveira 2012; POF 2008/09.

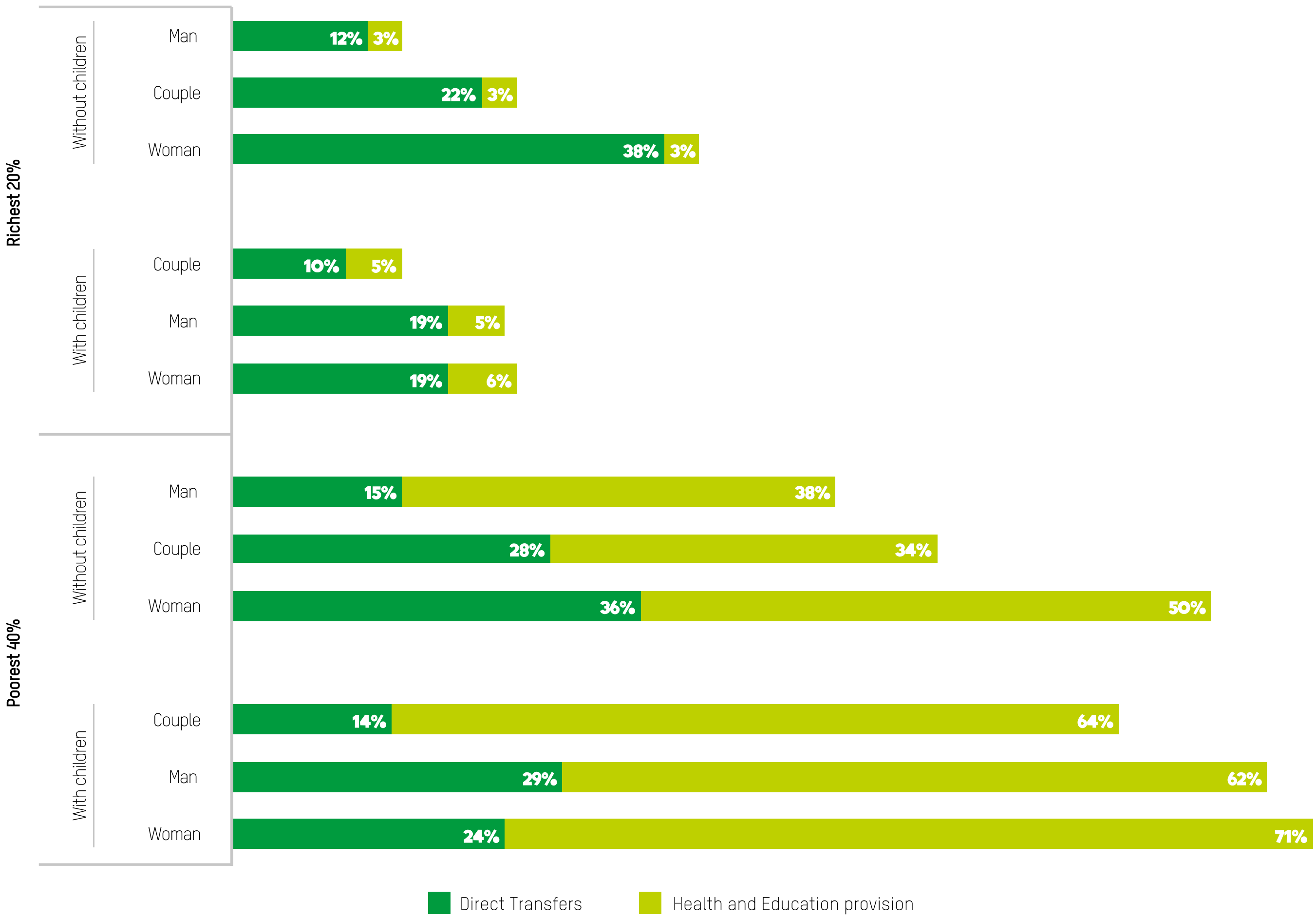
Note: Researcher Fernando Gaiger Silveira provided his tax and social spending database per POF (household budget survey) unit of consumption. With that database and PNAD microdata, data were processed and organized according to household living arrangements. The 2008-2009 POF is still the most recent survey available for these calculations, as 2018 POF data had not been released by the time this report was concluded.

Transfers and provisions to a white couple, with children, in the richest 20% stratum, for example, account for 14% of income, while to a white couple, with children, in the poorest 40% group they account for 33%, more than twice. Social spending accounts for 16% –17% of the income of a black couple with children in the richest 20%, yet accounts for 34% of the income of blacks at the base of the pyramid. This reveals how important the impact of social spending on racial inequality mitigation is.

Considering the base of the pyramid, **Graph 15** shows that the impact of transfers is higher for individuals and couples without children. Moreover, it points to the importance of maintaining investments in health and education for households with children. This becomes evident in **Graph 16**, which estimates the impact of social spending on health and education is, on average, 64% for couples with children within the poorest 40% stratum, rising to 71% for household arrangements with women and children.

// GRAPH 16.

Brazil – Share of transfers and of public provision in the income of households according to marital status, sex, presence of children and household income per capita strata (2008-2009)



Source: Silveira 2012; POF 2008/09.

Note: Researcher Fernando Gaiger Silveira provided his tax and social spending database per POF (household budget survey) unit of consumption. With that database and PNAD microdata, data were processed and organized according to household living arrangements. The 2008-2009 POF is still the most recent survey available for these calculations, as 2018 POF data had not been released by the time this report was concluded.

What these figures reveal is that health and education provision are very important for the base of the pyramid, especially for couples with children. Transfers -pension benefits in particular- are a little less progressive, their share varying slightly in households with children at the base and at the top of the pyramid.

Lastly, poor people in Brazil – here considering the poorest 40%, whose personal average income is BRL 696.20 – depend heavily on the State to increase their incomes, as well as to gain access to health centers, hospitals, vaccination centers, day-care centers, and primary education schools. Measures constraining the ability of the State to carry out policies targeting these services, which are actually constitutional rights, impact enormously household income, reducing it and increasing poverty and inequalities.

SPENDING CAP

Constitutional Amendment 95 was signed into law on December 15, 2016 establishing the New Fiscal Regime.[140] Pursuant to this amendment, all federal spending is frozen at 2016 levels, only inflation-adjusted for the period of twelve months ended in June of a previous year. The so-called "Spending Cap" leaves out, however, financial expenses, constitutionally-mandated transfers, and Electoral Court expenses, among others.[141]

The justification used by the government was the need to contain the debt-to-GDP ratio, which grew dramatically with the economy's downturn, with a view to preserving a State's fiscal health that appealed to investors.[142] The cap is in force for a period of twenty years, with the possibility of a review after ten years, and its most prominent effect is the reduction of public spending as a proportion of the GDP –especially, health- and education-related social expenditures.[143]

The post-Constitutional period was marked by the expansion of the Welfare State in the country, resulting in a mismatch between economic growth and expenditure growth. Between 1992 and 2008, the government's primary expenses grew at an annual average of 6%, twice the average growth of the economy over the same period.[144] The debt-to-GDP ratio, which had peaked in 2002, started to decline over the following years, up to 2010, mostly on account of positive primary results and strong economic growth.

In 2011, public sector net debt begins to rise again, a trend that accelerates in 2014, driven by poor GDP performance– GDP that year grew by a mere 0.5%, yet was minus 8% in 2015 and minus 3.6% in 2016;[145] due to a lack of political conditions to expand taxation, which had been stable as a proportion of GDP at 33% for at least six years; and to the volume of public spending.

The most immediate effect of this context was to contain federal budget expenditure, directly impacting several social programs, like the Food Procurement Program (PAA) and the Popular Pharmacy Program.[146] It is a challenge to guarantee the exercise of rights in a negative fiscal situation. Fiscal balance is a key public policy for social development.

Moreover, by establishing an overall and indiscriminate limit, the Spending Cap bill also capped social spending that reaches those who need it most –and did that by considering 2016 levels, much lower than those observed in the previous years. By limiting progressive social expenditures, the Spending Cap limits, as seen earlier, the very ability of the State to reduce inequalities and combat poverty.

If, on the one hand, the Spending Cap brought the public budget back to the top of the debate agenda, on the other, it failed to solve the profound asymmetry of influence in establishing the budget, allowing social expenditures to compete against each other, including social security, which is bound to grow over the next years, and against other federal expenses and the lobbies, such as civil service payroll payments. The fact that a review of the long list of privileges attached to public accounts was left out of this solution is evidence that the adjustment bill is not being paid for by the whole of society.

During the very short time allowed to debate the then Constitutional Amendment Bill 241/2016 (55/2016 in the Senate), the few studies that estimated the social impacts of a fiscal measure so horizontally radical showed a short-term prospect of precarious health and education services,[147] since the population will grow and age, while expenditure size, at best, will match the previous year's inflation. As regards protection of the elderly, for example, the measure is dramatic, given that it will reduce the size of public spending, while it is predicted that the elderly population will double in Brazil by 2036.[148]

Lastly, the Spending Cap solution is merely fiscal, and Constitutional Amendment 95 is willing to waste a generation for an inability to more deeply and broadly debate rights and privileges in the public budget. The greatest risk this measure poses –which was devised for the long term, restricting priorities to different governments and in unknown contexts –is to the base of the social pyramid, given the dependence on, among other public services, health, assistance, and education services. More than that, this measure jeopardizes rights enshrined in our Constitution providing for universal access to health and education. Thus, the Spending Cap will bring disastrous consequences for the country in terms of poverty and inequality.

André Teixeira / Oxfam Brasil

3.

INEQUALITY REDUCTION AGENDA

2018 marks three decades since the promulgation of our Federal Constitution, in October 1988. Oxfam Brasil believes that, today as then, there is broad and deep social support for the constitutional principles of pursuing development with social justice and inequality reduction. And there is unquestionable support for the provision of universal public services, in particular for those who are at the base of the social pyramid.

Brazil was managing to lift millions of people from poverty and to make progress in inequality reduction. Yet, this road came to an end. We are at a juncture where we either return to the road of inequality reduction or we will deepen the gap separating Brazilians between first- and second-class citizens. There is a long road ahead before the country can actually provide social mobility to our population. Along this journey, there is no denying the need for public investment in health, assistance, social security, and other policies forming the social protection network in place in the country today, which ensures that most of the population can lead decent lives. Just as public investment is fundamental for quality education, from one's first years of life all the way up to the university. Other public policies designed to include those groups who have historically had their rights denied –for example, the black population, women, indigenous peoples, and the LGBT+ community– are also indispensable.

Backing all that, as required by the Federal Constitution, there must be a public tax collection system that is fair. For that, the Brazilian tax system must strive for efficiency –thus allowing the necessary growth propelled by the economic activity– but also for social equity, playing an important distributive role, just as occurs in other countries with economies just as or more dynamic than ours.

Brazil has gone through severe fiscal crises since 1988. On those occasions, those hit hardest were always those at the base of the pyramid, either by inflation, as it eroded their income, or by unemployment, which eliminated their jobs, and/or by the fiscal contraction, which limits the supply of public services on which this majority relies. Balanced public accounts are, therefore, a main condition for ensuring social policies and rights.

At the same time, there is well enough space and undeniable urgency for reversing privileges in Brazil. For decades, the richest have kept a greater slice of national income, both in boom and bust cycles.[149] Tax exemptions, lavish benefits, and patronage have come to be part and parcel of the income of the top of the social pyramid, while the country has one of the worst levels of social mobility on the planet.[150] Therefore, it is imperative that solutions for the public accounts focus on the crux of the matter, that is, really discussing redistribution in the country and embedding the rights of the base of the social pyramid in the fiscal equation.

This report addressed the state of Brazilian inequalities and the impact of taxation and social spending on their reduction against a backdrop of stagnation and threats of rollbacks. Concerning this theme, and fully aware it requires further investigation, Oxfam Brasil identified three topics to set the working agenda.

INCOME AND WEALTH

It is of the utmost importance that Brazil's public policy-making horizon set the reduction of economic inequalities as a priority The Federal Constitution sets forth in Article 3, "The fundamental objectives of the Federal Republic of Brazil are: [...] III. To eradicate poverty and substandard living conditions and to reduce social and regional inequalities". Therefore, Oxfam Brasil has adopted the following priorities to reduce income inequalities:

- **Setting inequality reduction targets.** Governments should establish targets and permanent monitoring of disparities, seeking solutions in the form of public policies designed to correct them.

- **Minimum wage real increase.** This was one of the pillars of the recent income inequality reduction in the country. The Brazilian minimum wage is still far from the ideal value. This measure benefits the majority of the population.

- **Setting targets toward ending wage discrimination on the basis of race and gender.** The government should pursue ways to bring an end to this form of discrimination inside the enterprises. Target-setting is to be carried out with the participation of social organizations and movements representing this population, in addition to the entrepreneurial sector.

- **Scaling-up existing public surveys.** The surveys available today are not sufficient for understanding wealth inequalities (about which, today, there are only estimates). Improving this information is vital, as is collecting and making available additional data that may allow a better understanding of the profile at the top of the Brazilian social pyramid, enabling cross-correlating educational, race, gender, and geographic data with other data. This knowledge will make it possible for society and the governments to identify policies and measures that may reduce extreme inequality in the country.

TAXATION

A country with the levels of inequality Brazil cannot do without a tax system that will pursue fairness and equity. That will seek to scale down and simplify taxes on goods and services that burden the productive sector and affect the Brazilian population unequally, at the expense of the poorest and the middle class; and to increase the tax on income and wealth. That is to say that there are several proposals on the table at the moment. Below, Oxfam Brasil presents some of its priorities for a reform based on redistribution of the tax burden:

- **Establishing tax reform as a priority.** It is important to make sure that the tax changes to be set by National Congress and the governments prioritize tackling inequalities, as set forth in our Constitution. It is imperative to dismantle the privileges enjoyed by some sectors and to ensure the interest of the majority of the population. Civil society engagement in this debate is indispensable.

- **Carrying out specific reforms of personal income tax IRPF.** We present two initial reforms:

  » **Creation of new personal income tax brackets and rates for the richest.** Today there are only four tax rates, and these fail to tackle inequality among taxpayers. This is especially harmful for the middle class, who pay a proportionately much higher tax than the super-rich.

  » **Reintroduction of a progressive tax on profit and dividends.** One of the most regressive policies in Brazil's tax system today is that profits and dividends are tax-exempt, the main reason behind the drastic reduction of the real rate for the super-rich and for the so-called labor market "PJtização", or the subcontracting of former employees compelled to open up own businesses. The reintroduction of the tax on profits and dividends –both progressive and based on tax justice and tax efficiency– is absolutely essential.

- **The fight against tax avoidance and evasion.** This item requires permanent attention, above all to ensure a fair system for those who, in proportional terms, are burdened with the highest taxes –the poorest and the middle class.

SOCIAL SPENDING

Social spending is a State's obligation, and a necessity for tackling inequalities and poverty. It is not an act of benevolence: it is one the government's duties. The size of inequalities in Brazil and the high numbers of people living in poverty demand continuity, long-term vision, progressivity, and quality. With that in mind, Oxfam Brasil considers the following measures to be priorities:

- **Revocation of Constitutional Amendment 95/2016 (Spending Cap).** The revocation of the amendment is fundamental and urgent to get Brazil back on the road to inequality reduction by means of providing public services that respect the constitutionally-mandated rights to universal health and education, plus scaling up social policies.

- **Greater progressivity and quality performance.** It is necessary to increase the reach, efficiency, and effectiveness of social spending.

- **Establishing transparency mechanisms.** Allocation and implementation of public policies and resources must be guided by transparency to allow for social control. Decisions regarding public policies should proceed along social engagement-oriented institutional roads.

- **The fight against corruption.** This is the main item on Brazil's agenda today. Systemic corruption has not only diverted public funds that are extremely important for social policies, but also undermined the faith the people had in the State's redistributive role.

There is still much to be done for Brazil to become a fairer country. We must seek to advance education and to step up the fight against racism, women's discrimination, and discrimination against indigenous peoples and the LGBT+ community. Also fundamental is to improve young people's access to the formal labor market and to bring the population closer to their rulers, thus fostering respect for and strengthening the Brazilian democracy.

The road ahead is long, but the cause is just. Oxfam Brasil believes that reducing inequalities is one of the main challenges our country is facing at this point in our history, and holds the conviction that the Brazilian society wishes for a country that is less unequal, fairer, and in solidarity.

LIST OF GRAPHS, MAPS AND TABLES

LIST OF ABBREVIATIONS

ANFIP	National Association of Tax Auditors of the Federal Revenue of Brazil
LAC	Latin America and the Caribbean
EC	Constitutional Amendment
CEM	Center for Metropolis Studies
ECLAC	Economic Commission for Latin America and the Caribbean
CESOP	Center for Public Opinion Studies
COFINS	Contribution for Social Security Fund
CRII	Commitment to Reduce Inequality Index
GTB	Gross Tax Burden
ESEB	Brazilian Electoral Study
FENAFISCO	National Federation of State and Federal District Tax Authorities
IBGE	Brazilian Institute for Geography and Statistics
ICMS	Goods and services taxes
HDI	Human Development Index
IPCA	National Comprehensive Consumer Price Index
IPI	Tax on industrial goods
IPTU	Property tax
IPVA	Tax on vehicles
ISS	Services tax
IRPF	Personal income tax
IRPJ	Company income tax
OECD	Organization for Economic Co-operation and Development
SDG	Sustainable Development Goal
UN	United Nations
PAA	Food Procurement Program
GDP	Gross Domestic Product
PIS	Social Integration Program Contribution
PNAD	National Household Sample Survey
UNDP	United Nations Development Programme
POF	Household Budget Survey
PSIEMS	Stratification and Social Mobility Indicators System Project
SRF	Secretariat of the Federal Revenue
SUAS	Single Social Assistance System
SUS	Single Health System
UF	Federative Unit
WID	Wealth and Income Database

NOTES

1 NERI, M. 2018. "Qual foi o impacto da crise sobre a pobreza e a distribuição de renda?" FGV Social. Available at: https://cps.fgv.br/Pobreza_Desigualdade

2 Ibid.

3 MINISTÉRIO DA SAÚDE. 2018. DataSUS. Available at: http://www2.datasus.gov.br/DATASUS/index.-php?area=0205

4 IPEA/Ipeadata. Série histórica de Gini – 1976 a 2014; UNDP. 2017. "Relatório do Desenvolvimento Humano 2016" for 2015 data. Continuous annual IBGE/PNAD for 2016 and 2017. Note: Gini index calculated on the basis of household income per capita and based on PNAD/IBGE and Continuous PNAD household surveys. Annual PNAD time series up to 2015 not correlated to 2016 and 2017 Continuous PNAD on methodological grounds.

5 UN. 2015. Available here: https://nacoesunidas.org/ pos2015/ods10/

6 GT DA SOCIEDADE CIVIL SOBRE A AGENDA 2030. 2018. "Relatório Luz da Agenda 2030 de Desenvolvimento Sustentável – Síntese II". Available at: http://library.fes.de/pdf-files/bueros/brasilien/14577.pdf

7 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

8 UN. 2015. Target 1 of Sustainable Development Goal 10 is: "By 2030, progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national rate". Available here: ht- tps://nacoesunidas.org/pos2015/ods10/

9 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

10 UN. 2015. Target 2 of Sustainable Development Goal 10 is: "By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status". Available here: https://nacoesu- nidas.org/pos2015/ods10/

11 UN. 2015. Target 3 of Sustainable Development Goal 10 is: "Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard". And Target 4 of Sustainable Development Goal 10 is: "Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality". Available here: https://nacoe- sunidas.org/pos2015/ods10/

12 Among the laws in that direction, we highlight Constitutional Amendment 95/2016 ("Spending Cap"), Law 13467/2017 (Labor Reform, in particular, items relating to loss of rights) and Law 13465/2017 (previously called "Squat Law"). For more, see GT 2030 2018. "Relatório Luz da Agenda 2030 de Desenvolvimento Sustentável – Síntese II". Available at: http://library.fes.de/pdf-files/bueros/brasilien/14577.pdf

13 IBGE. 2018. Informativo PNAD Contínua 2017 – Rendimento de todas as fontes. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf

14 IBGE/PNAD Contínua. Série Histórica de taxas de desemprego. 2014 - 2017.

15 IBGE. 2018. Revista Retratos, published on May 11, 2018. Available at: https://agenciadenoticias.ibge.gov.br/agencia-noticias/2012-agencia-de-noticias/noticias/21206-ibge-mostra-as-cores-da-desigualdade. Note: According to IBGE, blacks have been systematically more affected than whites by recent and persistent increase in unemployment. According 4Q2017 Continuous PNAD data, unemployment rate for blacks was 13.6%, for browns, 14.5%, but only 9.5% of whites were unemployed.

16 STN – NATIONAL TRESURY SECRETARIAT. 2018. Tesouro Transparente. Séries Temporais. Resultado Fiscal do Governo Central. Available at: http://www.tesourotransparente.gov.br/ visualizacoes/series-temporais

17 CONSTITUTIONAL AMENDMENT 95/2016, which introduced the "New Fiscal Regime". Available at: http://www.planalto.gov.br/ccivil_03/ constituicao/emendas/emc/emc95.htm

18 Though there are exceptions and a period of adaptation during which the Executive is burdened with excesses form the other Branches.

19 There is no single definition of "social spending". In this report, we adopt our own and ECLAC's data. For Oxfam Brasil's own analyses (Graph 14), conducted by Evilasio Salvador, we adopt a more comprehensive concept of social spending involving expenses directly related to the achievement of human, economic, social, cultural, and environmental rights (HESCERs). Our sources are SALVADOR, Evilasio. 2010. "Fundo público e seguridade social no Brasil". São Paulo: Cortez; and Inesc. 2017. "Metodologia de orçamento e direitos: referenciais teóricos e políticos". Brasília: Inesc, 2017. ECLAC defines social spending as, "the amount of resources available for financing plans, programs, and projects whose aim is to generate positive impact on a social problem, irrespective of: administrative entity and sector in charge of each area (education, health and nutrition, social security, social assistance, labor, housing, water and sanitation), source of funding (public, co-funding by "beneficiaries", donation or private donation from abroad), and expenditure item to which they are allocated (current expenses and capital expenses)." See www.dataigualdad.org.

20 IBGE. 2018. Projeções da população. Available at: https://www.ibge.gov.br/estatisticas-novoportal/sociais/populacao/9109-projecao-dapopulacao.html?=&t=resultados.

21 In 2015 an Ad Hoc Commission on Tax Reform was organized. Throughout 2016 and, especially, 2017, proceedings restarted with the drafting of a constitutional amendment bill. The Commission's web page is available at: http://www2.camara.leg.br/atividade-legislativa/comissoes/comissoes-temporarias/especiais/55a-legislatura/reforma-tributaria

22 The final report released by the rapporteur failed to include several measures designed to correct the regressivity and neutrality of the tax system. The only focus is on simplification and against the so-called "Pejotização", however important these measures may also be. The overall effect regarding the reduction of the Gini index was not broadly discussed. The preliminary proposal, dated August 22, is available at: http://www2.camara.leg.br/atividade-legislativa/ comissoes/comissoes-temporarias/especiais/55a-legis- latura/reforma--tributaria/documentos/outros-documen- tos/22.08.17PECReformaTributria.pdf

23 GOBETTI, S., ORAIR, R. 2016. "Taxation and distribution of income in Brazil: new evidence from personal income tax data". UNDP/International Policy Centre for Inclusive Growth. Working Paper n. 136.

24 SILVEIRA, F. G., FERREIRA, J. 2011. "Equidade fiscal no Brasil: Impactos Distributivos da Tributação e do Gasto Social". Ipea. Communiqué n. 92. Brasília.

25 ARRETCHE, M. 2018. "Democracia e a redução da desigualdade econômica no Brasil: a inclusão dos outsiders". RBCS Vol. 33 n° 96.

26 BARROS, R. P. de, HENRIQUES, R., MENDONÇA, R. 2007. "Desigualdade e pobreza no Brasil: retrato de uma estabilidade inaceitável". RBCS, vol. 15, n. 42. February.

27 Ibid.

28 CASTRO, J. A., RIBEIRO, J. A. C., CHAVES, J. V., DUARTE, B. C. 2012. "Gasto Social Federal: prioridade macroeconômica de 1995 a 2010". Ipea. Technical Note n. 9. Brasília.

29 UNDP. 2013. "Humanidad Dividida: cómo hacer frente a la desigualdad en los países en desarrollo."

30 The Gini coefficient for total income per capita, calculated on the basis of annualized (2015) and continuous (2016-2017) PNAD data, used by us as main reference for this report, has been historically used to measure income distribution in Brazil. It is not, however, the only way for measuring it. There are other measurement methods (the Palma ratio, for example) and other types of databases (i.e. labor income or tax data).

31 IPEA/Ipeadata. Série histórica de Gini – 1976 a 2014; UNDP. 2017. "Relatório do Desenvolvimento Humano 2016" for 2015 data; and Annual Continuous IBGE/PNAD for the years of 2016 and 2017. Note: Gini index calculated on the basis of household income per capita and based on PNAD/IBGE and Continuous PNAD household surveys. Annual PNAD time series up to 2015 not comparable to 2016 and 2017 Continuous PNAD on methodological grounds.

32 Annual IBGE/PNAD (2003-2015) and 2016-2017 Continuous IBGE/PNAD (all earnings). Calculations by Ipea (2003-2014), Oxfam Brasil (2015), and IBGE (2016 and 2017). 2016 and 2017 were not compared on methodological grounds.

33 According to IBGE's technical note "Principais diferenças metodológicas entre as pesquisas PME, PNAD e PNAD Contínua" [Main differences between surveys...], of November 2015, there are significant methodological differences between the Monthly Employment Survey (PME) and the annual PNAD and the Continuous PNAD surveys. In this analysis, it is worth pointing out that the Annual PNAD survey and the Continuous PNAD survey differ in the scope of surveys and data collected (1,100 municipalities in the present PNAD, 3,500 municipalities in the continuous PNAD), the population surveyed (people with ten or more years in the annual survey, and fourteen or more in the continuous survey), and the occupied/unoccupied (consequently, income-related) criterion, among other differences. IBGE itself warns that "it is worth stressing that the existing methodological differences across surveys make it impossible to compare them".

34 NERI, M. 2018. "Qual foi o impacto da crise sobre a pobreza e a distribuição de renda?" FGV Social. Available at: https:// cps.fgv.br/Pobreza_Desigualdade

35 Ibid.

36 Annual IBGE/PNAD. 2011-2015. 2016 and 2017 Continuous IBGE/PNAD (all earnings). Calculations by Ipea (2003-2014), Oxfam Brasil (2015), and IBGE (2016-2017).

37 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

38 UNDP. 2018. "Tendências do IDH do Brasil com base em dados de séries temporais consistentes". Available at: http://www.br.undp.org/content/brazil/pt/home/presscenter/articles/2018/brasil-mantem-tendencia-de-avanco-no-desenvolvimento-humano--mas.html

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40 Ibid.

41 MINISTRY OF HEALTH. 2018. DataSUS. Available at: http://www2.datasus.gov.br/DATASUS/index.-php?area=0205

42 Survey by Cosmo Donato, from consulting firm LCA Consultores, kindly shared with Oxfam Brasil, builds on Continuous PNAD microdata. Note: To arrive at these figures, the consulting firm adopted the World Bank's baseline for upper-middle income development countries, like some in Latin America, of a household income per capita of USD 1.90 a day (purchasing power parity). This was equal to BRL 133.72 a month in 2016, according to IBGE calculations. LCA consultants adjusted this baseline by inflation index IPCA to BRL 136.00 in 2017.

43 The World Bank created new lines of poverty to better capture the poverty headcount in different economies. The essay "A richer array of international poverty lines", by Francisco Ferreira and Carolina Sánchez-Páramo (October 13, 2017), explains the rationale behind these new lines. It also clarifies that, for the purposes of the Bank as regards SDG 1, the poverty line continues to be USD 1.90 per person per day. The text is available at: http://blogs.worldbank.org/development- talk/richer-array-international-poverty-lines

44 Calculation made by the World Bank for newspaper *Folha de São Paulo*. Article published on October 31, 2017, available here: https://www1.folha.uol.com.br/mercado/2017/10/1931680-22-dos-brasileiros-vivem-abaixo-da--linha-da-pobreza-diz-estudo. shtml

45 IBGE. 2018. Informativo PNAD Contínua 2017 – Rendimento de todas as fontes. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf.

46 Ibid.

47 Ibid.

48 IBGE. 2018. Release of 2017 Annual Continuous PNAD data.

49 Value adjusted by 2017 IPCA consumer index, which closed at 6.9% in 2016. According to IBGE, total average household income per capita was BRL 1.226.00 in 2016.

50 IBGE. 2018. Informativo PNAD Contínua 2017 – Rendimento de todas as fontes. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf.

51 IPEA/Ipeadata. Série histórica de Gini – 1976 a 2014; UNDP. 2017. "Relatório do Desenvolvimento Humano 2016" for 2015 data. Continuous annual IBGE/PNAD for 2016 and 2017. Note: Gini index calculated on the basis of household income per capita and based on PNAD/IBGE and Continuous PNAD household surveys. Annual PNAD time series up to 2015 not correlated to 2016 and 2017 Continuous PNAD on methodological grounds

52 IBGE. 2015. Methodological Note on PME, PNAD, and Continuous PNAD.

53 Oxfam Brasil adopted, for these analyses, only the (total or labor) earnings of the population 20 years-plus to allow for comparability with Secretariat of the Federal Revenue data.

54 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

55 The World Bank's poverty line is USD 1.90 per person per day. With a US dollar worth BRL 3.314 at the end of 2017, the World Bank's daily poverty line would translate into BRL 188.90 a month.

56 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

57 Ibid.

58 MEDEIROS, M., SOUZA, P. H., CASTRO, F. A. 2015. "A estabilidade da desigualdade de renda no Brasil, 2006 a 2012: estimativa com dados do imposto de renda e pesquisas domiciliares". Revista Ciência e Saúde Coletiva, 20(4): 971-986.

59 Calculation by Oxfam Brasil, based on data by Brazil's Secretariat for the Internal Revenue – Big Numbers from 2017 Income Tax Returns (2016 calendar year). For this calculation we considered the portion of the population that self-declared having earned some income to the 2016 Continuous IBGE/PNAD household survey, or 124,328,000 people.

60 Ibid.

61 Ibid.

62 IBGE. 2018. Informativo PNAD Contínua 2017 – Rendimento de todas as fontes. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf.

63 WID – WEALTH AND INEQUALITY DATABASE. 2018. Available at: https://wid.world/

64 MEDEIROS, M., SOUZA, P. H., CASTRO, F. A. 2015. "A estabilidade da desigualdade de renda no Brasil, 2006 a 2012: estimativa com dados do imposto de renda e pesquisas domiciliares". Revista Ciência e Saúde Coletiva, 20(4): 971-986. SOUZA, Pedro H. 2016. "A desigualdade vista do topo: a concentração de renda entre os ricos no Brasil, 1926-2013". University of Brasília, Institute of Social Sciences. Brasília. MORGAN, M. 2017. "Extreme and persistent inequality: New evidence for Brazil Combining National accounts, surveys and fiscal data, 2001-2015". WID Working Paper Series n. 2017/12.

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66 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

67 Ibid.

68 Annual IBGE/PNAD. 2011-2015. 2016 and 2017 Continuous IBGE/PNAD (all earnings). Calculations by Ipea (2003-2014), Oxfam Brasil (2015), and IBGE (2016-2017).

69 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

70 Ibid.

71 Ibid.

72 Estimate made by adjusting 2016 averages by annual IPCA, which closed the year at 6.29%.

73 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

74 Ibid.

75 Estimate made by adjusting 2016 averages by annual IPCA, which closed the year at 6.29%.

76 UNDP. 2018. "Tendências do IDH do Brasil com base em dados de séries temporais consistentes". Available at: http:// www.br.undp.org/content/brazil/pt/home/presscenter/ar- ticles/2018/brasil-mantem-tendencia-de-avanco-no-desenvolvimento-humano--mas.html. Note: The Gender Inequality Index measures inequalities in three gender-sensitive areas: reproductive health, empowerment, and labor market. Brazil ranks 94th, with an index of 0.407. It is worth noting that the country with the lowest HDI in the world has more women with seats in Parliament than Brazil. In Brazil women in Parliament account for 11.3%, while in Niger they are 17%.

77 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys. Total individual earnings for adults 20 years-plus.

78 Annual IBGE/PNAD. 2011-2015. 2016 and 2017 Continuous IBGE/PNAD (all earnings). Calculations by Ipea (2003-2014), Oxfam Brasil (2015), and IBGE (2016-2017).

79 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

80 Ibid.

81 IBGE. 2018. 2017 Continuous PNAD Update – Earnings from all sources. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf.

82 Ibid.

83 Estimates by Oxfam Brasil, based on the 2016 and 2017 Annual Continuous IBGE/PNAD household surveys.

84 Ibid.

85 IBGE. 2018. 2017 Continuous PNAD Update – Earnings from all sources. Available at: https://biblioteca.ibge.gov. br/visualizacao/livros/liv101559_informativo.pdf.

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88 Ibid.

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dies (Cesop) and processed by Arretche & Araújo (2017). For 2013, the source is research study "Imagens da Federação" by the Center for Metropolis Studies (CEM) also interpreted by Arretche & Araújo (2017). For 2017, data from Oxfam Brasil/ Datafolha survey on inequalities, processed by Oxfam Brasil. The statements used were: "Support Government" corresponds to "In a country like Brazil, it is the role of the Governments to reduce the difference between very rich people and very poor people"; "Support Taxation" corresponds to "The Government should increase taxes in general to ensure better education, more health, and more housing for those in need"; and "Support Taxation on Rich" corresponds to "The Government should increase taxes only for very rich people to ensure better education, more health, and more housing for those in need".

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114 ANFIP; FENAFISCO. 2018. Synthesis document containing tax reform proposal.

115 Ibid.

116 OLIVEIRA, F. A. 2018. "A reforma tributária necessária: uma introdução geral" In: ANFIP & FENAFISCO. FAGNANI, E. (org.). 2018. A reforma tributária necessária: diagnóstico e premissas. Note: analysis based on OECD data.

117 Ibid.

118 Ibid.

119 Ibid.

120 GAIGER, F.; PASSOS, L. 2018. "Justiça Fiscal no Brasil: que caminhos trilhar?" In: ANFIP & FENAFISCO. FAGNANI, E. (org.). 2018. A reforma tributária necessária: diagnóstico e premissas.

121 Ibid.

122 IBGE adopts *mestiços* for couples involving a black ("black" or "brown") spouse and a non-black spouse.

123 FEDERAL CONSTITUTION.1988. Article 145, Paragraph 1. "Whenever possible, taxes shall have an individual character and shall be graded according to the economic capacity of the taxpayer, and the tax administration may, especially to confer effectiveness upon such objectives, with due respect to individual rights and under the terms of the law, identify the property, the income and the economic activities of the taxpayer." Available at http://www.planalto.gov.br/ccivil_03/Constituicao/Constituicao.htm

124 FEDERAL CONSTITUTION.1988. Article 3. "The fundamental objectives of the Federal Republic of Brazil are: [...] III. To eradicate poverty and substandard living conditions and to reduce social and regional inequalities." Available at: http://www.planalto.gov.br/ccivil_03/Constituicao/Constituicao.htm

125 GOBETTI, S., ORAIR, R. 2016. "Taxation and distribution of income in Brazil: new evidence from personal income tax data". UNDP/International Policy Centre for Inclusive Growth. Working Paper n. 136.

126 ANFIP & FENAFISCO. 2018. FAGNANI, E. (org.). "A reforma tributária necessária: diagnóstico e premissas".

127 Estimates by Oxfam Brasil, based on Chamber of Deputies Portal. Available at: http://www2.camara.leg.br/

128 JUNQUEIRA, M. O. 2011. "O Nó Tributário: porque não se aprova uma reforma tributária no Brasil". Article presented at the 35th Anpocs annual meeting. GT29. Available at: https://anpocs.com/index.php/papers-35-encontro/gt-29/gt-29-10/1172-o-no-tributario-porque-nao-se-aprova-uma-reforma-tributaria-no-brasil/file

129 Since 2017, Anfip and Fenafisco have sponsored an initiative to lay the foundations for a tax reform in Brazil. The project, named Solidarity Tax Reform, which Oxfam Brasil is a party to, brings together a group of different specialists who have released two publications on the theme. The first one brings articles on features of the tax system and tax administration. The second one summarized an exercise simulating a redistribution of the tax burden by bringing it closer to the distribution observed for the OECD average.

130 GOBETTI, S., ORAIR, R. 2016. "Taxation and distribution of income in Brazil: new evidence from personal income tax data". UNDP/International Policy Centre for Inclusive Growth. Working Paper n. 136.

131 Ibid.

132 Ibid.

133 GOBETTI, S., ORAIR, R. 2016. For the purpose of international comparison, Estonia, Mexico, and Slovakia (besides Brazil) adopted similar measures to Brazil's with reference to the end of double personal/corporate taxation. However, Slovakia introduced a social contribution to fund health in 2011, while Mexico reestablished a tax on dividends in 2014. Today, among OECD countries, only Brazil and Estonia grant full exemption from a tax on distributed profits and dividends. It is worth quoting, "The empirical literature lacks conclusive results demonstrating that tax benefits granted to the earnings from capital ownership (exemption of dividends and deduction of interest over own capital) have succeeded in increasing investments in the country. On the contrary, investments were stagnant for more than one decade after these measures were implemented. Yet, what we can unequivocally affirm is that they consolidated a situation of undertaxation of profit in the country and contributed to the low progressivity of the income tax (IR)". (Gobetti & Orair 2016, p. 6);

134 SILVEIRA, F. G.; RODRIGUES, R.; PASSOS, L. Benefícios fiscais do IRPF e seus impactos distributivos. Rio de Janeiro, 2018. Mimeo. FERNANDES, Rodrigo C; CAMPOLINA, Bernardo; SILVEIRA, Fernando G. Impacto Distributivo do Imposto de Renda no Brasil In: AFONSO, J. R.; LUKIC, M. R.; ORAIR, R.; SILVEIRA, F. G (orgs). Tributação e desigualdade. Belo Horizonte: Ed. Letramento, 2017.

135 OXFAM INTERNACIONAL. 2018. "Commitment to Reduce Inequality Index – CRII". Available at: https://www.oxfam.org/en/research/commitment-reducing-inequality-index-2018

136 Ibid.

137 STN – NATIONAL TREASURY SECRETARIAT. 2018. Tesouro Transparente. Séries Temporais – Resultado Fiscal do Governo Central. Available at: http://www.tesourotransparente.gov.br/visualizacoes/series-temporais

138 ECLAC. 2018. Data compiled by Oxfam International. Available at: http://www.dataigualdad.org/

139 PASSOS, L. 2018. "Normas de Gênero: Constrangimentos e Limitações na Atuação Econômica Feminina". Thesis submitted to the graduate program in Applied Social Sciences/Economics. Fluminense Federal University.

140 CONSTITUTIONAL AMENDMENT 95/2016, which introduced the "New Fiscal Regime"". Available at: http://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc95.htm

141 CONSTITUTIONAL AMENDMENT 95/2016, which establishes the "New Fiscal Regime". Article 107, § 7, sets forth that, "During the three first fiscal years the New Fiscal Regime shall be in effect, the Executive Branch may compensate with an equivalent reduction in its primary expenditure, pursuant to the values established in the budgetary bill submitted by the Executive Branch in the respective year, the excess of primary expenses relative to the limits provided for in sections 2 to 5 of this article's title." Available at: http://www.planalto. gov.br/ccivil_03/constituicao/emendas/emc/emc95.htm

142 This explanation appears in the justification, at the time, for constitutional amendment bill PEC 241/2016.

143 DWECK, E.; SILVEIRA, F. G.; ROSSI, P. 2018. "Austeridade e desigualdade social no Brasil". In: DWECK, E.; ROSSI, P.; OLIVEIRA, A. L. M. 2018; "Economia para poucos: impactos sociais da austeridade e alternativas para o Brasil". São Paulo. Autonomia Literária. Note: The authors argue that the PEC solution had no other reason than to hit constitutionally-mandated health and education provisions.

144 SARAIVA, A. M.; PEREIRA, R. A. C.; GOMES; J. W. F.; BEZERRA, A. R.; LÚCIO, F. G. C.. 2018. "Reformas Fiscais no Brasil: Uma análise da EC 95/2016 (Teto de Gastos)". Text presented at Anpec in 2018. Available at: https://www.anpec.org.br/sul/2017/submissao/files_I/i6-a98a1ed326e0fa20410c37b201d6d785.pdf

145 STN – NATIONAL TREASURY SECRETARIAT. 2018. Tesouro Transparente. Séries Temporais – Resultado Fiscal do Governo Central. Available at: http://www.tesourotransparente.gov.br/visualizacoes/series-temporais

146 INESC; OXFAM BRASIL; CESR. 2017. "Human Rights in Times of Austerity". Available at: http://www.inesc.org.br/ biblioteca/publicacoes/direitos-humanos-em-tempos-de-austeridade/at_download/file

147 ROSSI, P.; DWECK, E. 2016. "Impactos do Novo Regime Fiscal na saúde e educação". Cad. Saúde Pública 2016; 32(12)

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150 OECD. 2018. "A broken social elevator? How to promote social mobility". Available at: https://www.oecd.org/social/soc/Social-mobility-2018-Overview-MainFindings.pdf

ABOUT OXFAM BRASIL

Oxfam arrived in Brazil in the late 1950s, and started to work on a structured and continuous basis in 1965. At the time, Oxfam Brasil actions led to financing of credit cooperative projects for family farmers in northeastern Brazil. In 1968, Oxfam Great Britain opened, in Recife, Pernambuco, our first office in Brazil, and started to work in partnership with social movements, non-governmental organizations, and associations committed to poverty reduction, social justice, and democracy. Later, Oxfam Intermon (GTB) also opened up an office in Recife and Oxfam Novib (Netherlands) started financing projects and programs in the country.

With the end of the military dictatorship, Brazil set out to protect citizenship, freedom of speech, and social, civil, and political rights. Oxfam engaged in this process by supporting NGOs and social movements. With the promulgation of the 1988 Constitution, Oxfam began to support projects designed to make sure that rights achieved came into effect.

In 2001, a new office was opened, this time in Brasília, focused on campaigns. At the time, dialoguing more actively with the Brazilian State, Oxfam engaged in actions to support social inclusion public policies and to promote successful national experiences abroad.

2014 marks the founding of Oxfam Brasil, a Brazilian and independent organization that is a member of the Oxfam network, together with 18 other national organizations. Oxfam Brasil initiated its activities in 2015 with the mission of tackling inequalities and reducing poverty in the country. Oxfam Brasil's Deliberative Council establishes the organization's guidelines and strategies.

Today, Oxfam Brasil is acting along three thematic lines: More equitable and fairer cities – youth, gender and race; Economic Justice – inequality and tax justice; and Private sector, inequality and human rights. Along with other Brazilian society organizations and institutions, we strive to build a country that is fairer and in solidarity.

OXFAM BRASIL REPORT ON INEQUALITIES

SÃO PAULO, NOVEMBER 2018

For more information on this report, please email Oxfam Brasil at contato@oxfam.org.br.

Oxfam is a confederation of 19 organizations working as a network in more than 90 countries as part of a global movement in favor of necessary changes toward building a future free from the injustice of poverty and from inequalities.

For additional information, please contact any of the following organizations or visit website www.oxfam.org.br.

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