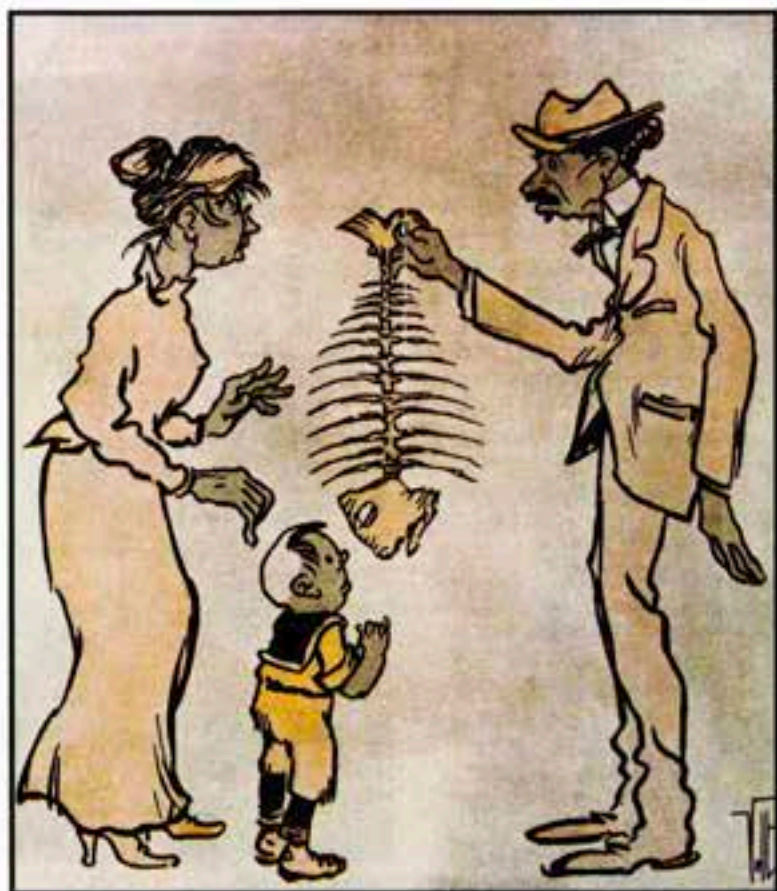


ECONOMY

THE OTHER SIDE OF FORTUNE



REPRODUCTION VOLTAIRE, 1817

Studies try to understand what makes a rich man rich

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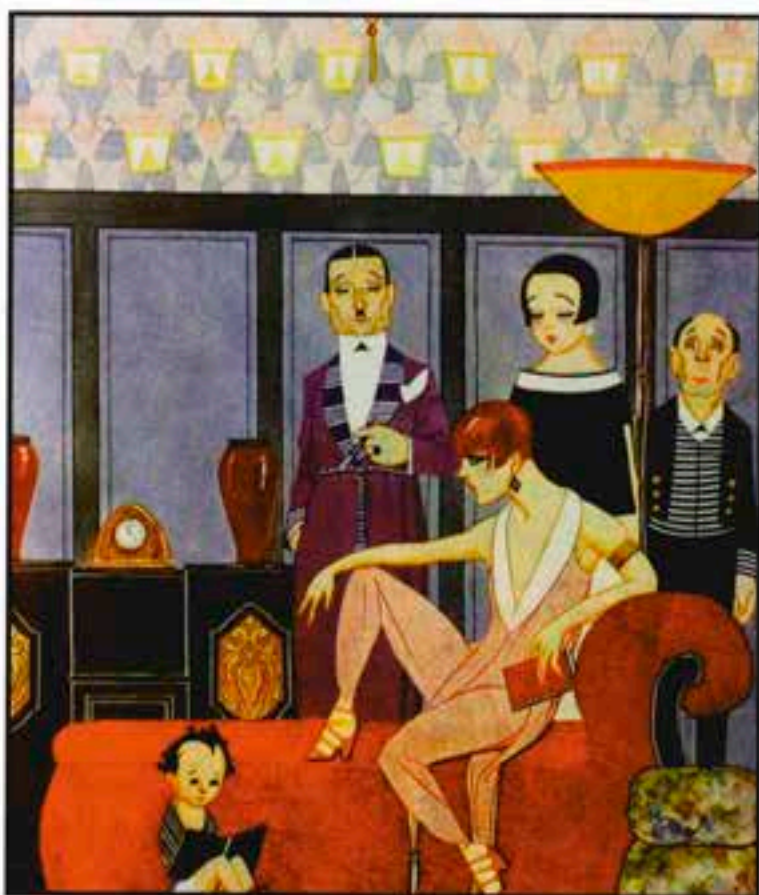
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In one of the tales from his youth, *The Rich Boy*, the American writer F. Scott Fitzgerald wrote that "the rich are different than me and you". "They really are", needed in a letter a friend of his, Ernest Hemingway, also a novelist, "yes, they have more money". These two "predicates" give them a third predicate: the rich "hide themselves" and are researched into very little. "There is an extensive literature about

poverty in Brazil, but there are few studies about the rich. Studying them is relevant, because they have power and their actions affect a large mass of people, including the poor; on the other hand, they have the largest part of the country's wealth, and one of the ways of improving the conditions of life of the poorer population is the redistribution of wealth in society", explains Marcelo Medeiros, the applied research coordinator of the Institute of Applied Economic Research (Ipea) at the UN's International Poverty Centre and the author of the doctoral thesis *What makes the rich rich: a study about the factors that determine poverty*. The research will be published in a book in October by Editora UnB. For the author, if we know the group that ought to receive resources, we know little about those that are going to provide them.

There is no lack, though, of statistics to show that, as Medeiros says, the poverty of many is directly connected to the wealth of few. You just have to read the study *Atlas of social exclusion in Brazil: the rich*, made by professors from USP, Unicamp and PUC-SP, which reveals that the



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income of the richest 10% corresponds to 45% of the Brazilian GDP. The situation worsens if we include in this calculation data about their assets: in this case, the percentage reaches 75.4% of total Brazilian wealth. With other parameters, 5,000 families (that is, 0.001% of the total) hold 3% of Brazilian income. Between 1980 and 1990, Brazil recorded an increase in the number of rich, although there had been a reduction in the country's growth: from 1.8% of the population, they leapt to 2.4%. But who are the rich? In his study, Medeiros created a wealth line, defined from poverty and inequality, which is around R\$ 3,500 per capita. A typical family of four persons would have a total income of R\$ 14,000. Take into consideration that these are not the "very rich", but they enter into the 1% of the population that holds 11% of the income. A terrible detail: the poor spend 32.79% of their income with food, and the rich only 10.26%, which shows that they pay proportionally more taxes than the rich that live in comfort.

Miracle - The data startles any economic faction. "The terrible distribution of income seems to be a perpetual plague in Brazil. It has resisted the spurts of growth of the 'Brazilian miracle' and the positive effects of the drastic fall in inflation since the Real Plan", observed the ex-minister and professor at USP Delfim Netto in a recent article. The high interest rates castigate the poor even more: every time the rate rises by 1%, the workers' income falls 1.09%, while the rich lose 0.72% of their earnings. "The policy of high interest rates has a devastating

effect of the distribution of income, but is less visible than those caused by inflation", analyzes Márcio Pochmann, an economist at Unicamp. Furthermore, he warns that the payment of the high interest rates of the public debt jeopardizes investments in the real economy, generating unemployment and affecting the poor even more. Money, then, once again migrates to the rich. "It is important to remember that there is a clear intersection between the economic elites and the power elites: accordingly, besides orientating the destinations of the economy, they also influence the decisions of State and the formation of public opinion", Medeiros notes.

Delfim was precise: this is a perennial "plague". "Changes in political regime, phases of euphoria and depression in the economy, modernization of values and customs, none of this was capable of making any noteworthy alteration in this segmentation between a great mass of poor and a small though rich elite", is Medeiros's assessment. In his

work, the researcher from Ipea, based on data from the IBGE, topples some ancient and deep-rooted explanations for the social inequality. Amongst these, some are put forward as hypotheses for bringing poverty to an end. Such as population control, the idea that the poor are poor because they have more children than the rich. "Only 3% of Brazilian families have more than three children under 10 years old. The fecundity rates are at low levels. To say that population control is a solution for poverty is to throw onto the less privileged the blame for their situation."

Medeiros observed in his simulation what would occur if the rich had more children and the poor, fewer. "The fact that one family is half the family of the other does not explain the fact that the rich have an income 27 times greater than the income of the poor", he warns. "There is no reason for believing that it is the size of their families that makes people rich. To justify inequality in these terms is to say that the poor are irresponsible, the rich are disciplined, and that this explains the all the difference between them." Another recurring myth, according to Medeiros, is the ideal of pure economic growth (that is, growth that increases the level of the product of the economy without changing its distribution) as a panacea for inequality. "Even if the country were capable of maintaining for two decades stable growth rates of 4% a year, that is to say, to grow at more than twice the speed of the last two decades and doubling the current GDP, poverty would affect 12% of the population." So, according to the researcher, growth may be good, but it is insufficient to reduce the inequality between rich and poor.

What differentiates them, then? "The unequal way how the workers of each group are remunerated. The

average of the remuneration per hour worked of the rich is 9.2 times more than the remuneration of the non-rich. This indicates that, even if the non-rich had the same family composition and organization as the rich, the inequalities between the strata would persist", Medeiros says. "Also lacking in grounds is the idea that much of the wealth can be explained much longer working days. Even if the non-rich workers were to increase their working days to the average level of the rich, very few would become rich." Another myth to be overturned is the one of education being a way of opening up to all the opportunities for being rich by means of work. "The simulations show that a high level of education of the workers, a high and long term investment, is a necessary condition, but not a sufficient one for a family to be rich", he says. Even supposing a significant increase in the educational level of the workers, no great upward mobility to the rich stratum is to be expected."

Relationships - In his thesis, Medeiros stresses the importance of taking into consideration external factors like being included in networks of social relationships, the possession of cultural capital, and the ownership of productive resources, all elements that raise the remuneration of work. Medeiros reminds us that, for rich or poor, income really does come from work, although "work" means different things for the two groups. Accordingly, he claims, the rich have characteristics that make them rich for having been born rich and, with good luck, to continue to be rich. They really are different. "Even so, we should not be pessimistic with regard to the future, but face up to the fact the eradication of poverty and reduction in inequality will only occur with the redistribution of income, that is to say, with the transfer of resources from the richer to the poorer", the researcher claims. "Many of the people that are going to read this article are part of the 1% elite, even if they don't like the idea. Almost all the readers are going to be part of the richest 10%. This is not a value judgment, but a fact of our distribution of income", he reckons.

"Medeiros argues, rightly, that to understand poverty it is indispensable to analyze the top of the pyramid, the rich, since poverty in Brazil is a result of the terrible distribution of income", observes Celi Scalon, from the Rio de Janeiro University Research Institute (Iuperj), in a comment on the researcher's work. "Rejecting 'easier' and more 'digestible' alternatives like population control and economic growth, the author chooses a road that is arduous and little sympathetic to the elite, which holds not only the economic power, but the political and symbolic power as well." Rafael Guerreiro Osório, from the International Poverty Center of the UN Development Program, agrees. "The viable solutions for reducing poverty will have to involve some way of leaving the rich less rich", he notes in an analysis of Medeiros's hypotheses. Flavio Comim, from the Federal University of Rio Grande



REPRODUCTION BETHA, 1900-20



The rich do not
see themselves
as part of
a social whole





REPRODUCTION ILUSTRAÇÃO: C. 1905

do Sul (UFRGS) and Cambridge University, another analyst of the researcher's thesis, stresses the idea that "the involvement of the rich is a fundamental cog for harmonizing social interests and for providing a State of minimum social well-being. We depend as much on the State as on the "moral sentiment" of the rich to progress in the direction of a less unjust and morally more acceptable society".

Threat - In the same tale that he shows how the rich are different, Scott Fitzgerald reveals the other side of fortune: "They believe, at the bottom of their hearts, that they are better than the other, precisely because the compensations and refuges of life were things that we discovered by ourselves. Even when they get to penetrate into our world, they continue to think that they are better than the rest of the world". Accordingly, the task proposed by Medeiros is not easy to be attained. "The elites believe that the social problems are the greatest challenges to Brazilian democracy", observed Elisa Reis, in her research *Perception of the elite about poverty and inequality*. The fruit of various interviews, Elisa's survey, carried out for IUPERJ, revealed that education is pointed out by the rich as being the most suitable path for endowing the underprivileged with resources. With better education, the poor would have chances of competing for a better place in the social structure, without there being a need of costs for the non-poor. Medeiros's work has now shown the fallacy of this idea.

Be that as it may, for the rich, the blame for indigence is the State's. According to Elisa's study, the elites "believe that things could change if there were a

political will and if the State fulfilled its role". The researcher stresses that the results could make one believe in an elevated social conscience of the rich, since social problems are at the top of their concerns. What could, according to her, lead to an erroneous assessment that our elite would like to repeat here what the rich of the developed countries did in the form of collective public solutions (agrarian reform, educational reform etc.) to solve poverty in Europe and to consolidate the Welfare State. "However, this is unfounded. There is a lack of social responsibility amongst the rich. Apparently, they do not see themselves as part of a whole, nor do they perceive the State as part of society, since, when they make it responsible for poverty, the elites exempt themselves from collective responsibility", in her assessment. "It's almost a consensus amongst the rich that it's the State that should be responsible for fighting poverty. This perception is just as widespread in these groups as the idea that the freedom of trade, the privatization of the state-owned companies and the shrinking of the State are extremely positive transformations", Elisa's study concludes.

Poor Brazilians, in turn, reinforce the "good life" of the rich and regard it as just, as Celi Scalon notes in her study of the "Brazilian knack" of living together with the inequalities of income. "Brazilians have great appreciation for credentials and attribute an enormous weight to professional qualifications as a resource for acquiring status", the professor analyzes. "In this sense, high salaries are justifiable when bound up with individual merit (effort, qualification, intelligence, education) and, accordingly, the inequa-



lity of income is morally or ethically legitimated”, Celi observes. In the same survey, the author discovered that Brazilians justify inequalities of income when they recognize them as necessary for the prosperity of the country.

“This kind of legitimation of inequalities recalls the logic that ruled in Brazil in the period of the military dictatorship, when it was claimed that it was first necessary to make the “cake” grow, to divide it afterwards. Everything indicates that this belief remains even in the present day.” The myths described by Medeiros still survive.

Decline - Not all, though, agree with the researcher. Cláudio Dedecca, an economist from the Union Studies and Economy of Labor Center (Cesit) and a qualified professor of Unicamp’s Economics Institute, in a comment on the study of the rich, argues that in the last 25 years the Brazilian economy has been undergoing a decline in the per capital product generated by Brazilian economically active workers, that is to say, there is a fall in the average social productivity. “Therefore, to distribute income in the current conditions of the Brazilian economy will make it possible, at the most, to reduce the degree of poverty and to lessen the gap in terms of the well-being of the poor Brazilian population, but it will not make it possible for them to attain the standard of well-being that the lower income population of other countries has reached, as, for example, in South Korea, Singapore, Taiwan or Thailand”, he claims. For Dedecca, it

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has to be recognized that today’s Brazil is a poor country, and that if there was a time when one could talk about distribution of income, this discussion stayed in the 1970s, when the Brazilian economy was enjoying a moment of economic growth and a rise in produc-

tivity. “Even considering the relevance of the distributive policies mentioned by him, they would tend to being unviable in a context of a fall in the average social productivity such as in today’s Brazil”, the economist notes.

But there are provisos, even for those that preach the importance of the “increase of the cake”. For Luiz Gonzaga Belluzzo, head of Unicamp’s Economics Department and winner of the Juca Pato Prize this year, care has to be taken with the kind of growth that one is going to opt for. “In all its history, Brazil has grown with an increase in social inequality. This is not tolerable today. If the country is going to grow, there is the requirement for this pattern not to be repeated”, he warns. Whether or not taking growth into account, the distribution of income, beyond the tax mechanisms, needs changes not only amongst the elites, but, in particular, amongst the mass of workers. “Changes occur as the fruit of pressure. It’s also a question of thinking how to encourage the political organization of the poorer population for it to demand the alterations that it judges necessary”, Medeiros warns. “A government that is interested in distributive actions is a government pressed to do so, a government that knows that, without this, it will not exist in a forthcoming mandate.”